OTP Bank Annual Report

Management's Analysis

2019

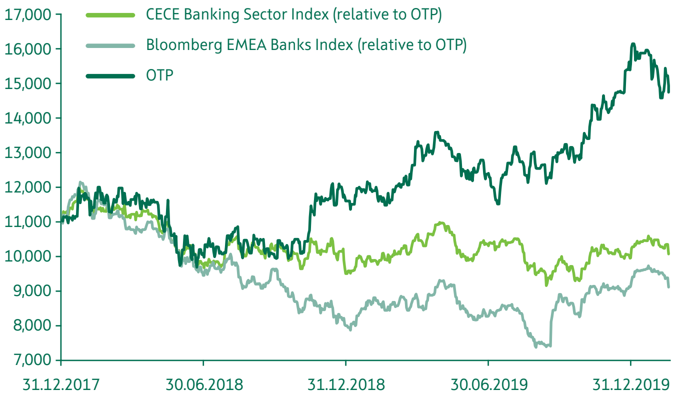
Management's analysis of the 2019 results of the OTP Group

CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Pre-tax profit	362,734	465,973	28
Operating profit	384,908	510,045	33
Total income	881,726	1,077,727	22
Net interest income	599,832	706,298	18
Net fees and commissions	220,731	282,504	28
Other net non-interest income	61,163	88,926	45
Operating expenses	(496,818)	(567,682)	14
Total risk costs	(26,167)	(47,107)	80
One-off items	3,993	3,034	(24)
Corporate taxes	(37,400)	(46,921)	25
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	14,590,288	20,121,767	38
Total customer loans (net, FX-adjusted)	**8,306,712**	**12,247,519**	**47**
Total customer loans (gross, FX-adjusted)	**9,001,577**	**12,942,009**	**44**
Allowances for possible loan losses (FX-adjusted)	(694,866)	(694,490)	0
Total customer deposits (FX-adjusted)	**11,547,410**	**15,522,654**	**34**
Issued securities	417,966	393,167	(6)
Subordinated loans	81,429	249,938	207
Total shareholders' equity	1,826,657	2,291,288	25
Indicators based on adjusted earnings	**2018**	**2019**	**pps**
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans ratio	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Net loan/(deposit+retail bond) ratio (FX-adjusted)	72%	79%	7
Capital adequacy ratio (consolidated, IFRS) – Basel3	18.3%	16.3%	(2.0)
Tier1 ratio – Basel3	16.5%	13.9%	(2.6)
Common Equity Tier1 (CET1) ratio – Basel3	16.5%	13.9%	(2.6)
Share Data	**2018**	**2019**	**%**
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Closing price (HUF)	11,290	15,430	37
Highest closing price (HUF)	11,850	15,600	32
Lowest closing price (HUF)	9,600	11,270	17
Market Capitalization (EUR billion)	9.8	13.1	33
Book Value Per Share (HUF)	6,524	8,183	25
Tangible Book Value Per Share (HUF)	5,921	7,362	24
Price/Book Value	1.7	1.9	9
Price/Tangible Book Value	1.9	2.1	10
P/E (trailing, from accounting net earnings)	9.9	10.5	5
P/E (trailing, from adjusted net earnings)	9.7	10.3	6
Average daily turnover (EUR million)	18	16	(7)
Average daily turnover (million share)	0.5	0.4	(20)

[1] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.
General note: in the tables of the Business Report those changes aren't presented that are deemed not to carry a meaningful economic substance (for example, if the absolute value of the change exceeds 1,000%).

Share price performance



S&P GLOBAL RATINGS	
OTP Bank and OTP Mortgage Bank	
FX Long-term credit rating	BBB
MOODY'S RATINGS	
OTP Bank	
FX long-term deposits	Baa3
OTP Bank	
Subordinated Foreign Currency Debt	Ba1
OTP Mortgage Bank	
Covered mortgage bond	Baa1
FITCH'S RATINGS	
OTP Bank Russia	
Long-term credit rating	BB+
Expressbank Bulgaria	
Long-term credit rating	BB+

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2019 RESULTS OF OTP GROUP

According to the preliminary 4Q GDP data published on 14 February 2020 (4Q: +4.5% y-o-y), in 2019 Hungary was one of the most dynamically growing economies within the European Union with an annual growth rate of 4.9%, marking a moderate deceleration against the previous year. The key engine of growth was the strong domestic demand and the rapidly expanding investment activity, furthermore the contribution of the market services to overall growth was substantial and more pronounced than expected.

Balance indicators showed stable picture, employment rate increased further and the credit stance of Hungary within the investor community improved significantly: in 2019 both Fitch and S&P Global Ratings raised their credit rating by one notch (to 'BBB'). The country attracted a record level of FDI exceeding EUR 5 billion and by the beginning of 2020 the 5 year Hungarian CDS spreads tightened to their lows (48 bps).

Annual average inflation was 3.3% and NBH continued to pursue a loose monetary policy. The reference rate (3 months BUBOR) closed at 16 bps (+3 bps y-o-y) and the whole government bond yield curve shifted lower. Despite the headline inflation in December and also in January 2020 exceeded original expectations, the tax-adjusted core inflation remained in the tolerance range set by the central bank.

Among the economic policy measures, those aiming at boosting the demographic indicators enjoyed high priority: during the last five years under the Housing Subsidy Scheme for Families (CSOK) around HUF 318 billion non-refundable state subsidy was granted by end-2019, whereas the contracted volume of subsidized baby loans reached HUF 470 billion within the July-December period of 2019. Furthermore, there were several other targeted measures aiming at providing preferential funding sources to the actors of the real economy (Lending for Growth Scheme Fix, Bond Funding for Growth programme).

Household lending growth accelerated y-o-y: on sector level the newly disbursed household loan volumes expanded by 47.5% y-o-y, as a result the outstanding book grew by 15.5% y-o-y. In particular, cash loans advanced by 28%, housing loans by 9%, respectively; on the other hand home equities eroded by 14% y-o-y.

The corporate exposures demonstrated an 11% expansion on a yearly base.

Across OTP Group, most of the national economies enjoyed a fairly positive macroeconomic environment. General market sentiment towards the Ukraine improved significantly: in December the country reached an agreement with IMF on a new standby facility and UAH shined as one of the best performing Emerging Markets currencies. Partially explained by those factors, in January Ukraine successfully returned to the euro bond market. In Russia a faster economic growth is expected in 2020 with further monetary easing. In Romania, fiscal overspending characterizing the previous periods came to end which is expected to have negative impact on economic growth; the political uncertainty has been on the rise.

Based on the most recent GDP data for 4Q 2019, as well as considering some negative developments hindering global growth perspectives, on 14 February the Hungarian minister for finance announced that the Government revised its 2020 growth forecast from 4% to 3.5%.

Consolidated earnings: HUF 419 billion adjusted annual after tax profit, robust business activity and loan volume growth, moderate contraction in NIM y-o-y, improving efficiency indicators, stable portfolio quality

2019 was another landmark in the history of OTP Group: altogether there were six M&A transactions being executed (Bulgaria, Albania, Montenegro, Moldova, Serbia and Slovenia). Those acquisitions improved existing market positions in a meaningful way, whereas in new markets OTP acquired banks with substantial market share.

While the purchase price of those particular transactions was not made public as a result of an agreement between the parties, the overall average price of the deals completed since 2017 was around the book value of the acquired entities.

In 2019 OTP Group posted the highest ever after tax profit in its history, whereas the closing volume of total assets exceeded HUF 20,000 billion. The all-time high accounting and adjusted profits were shaped by number of factors: on the back of the favourable regional macroeconomic performance, business activity got further boost, as a result of that and also due to the accomplished acquisitions, performing loan volumes increased y-o-y by a remarkable pace in European comparison +48%; within that the organic growth rate was 15% (FX-adjusted).

Higher performing loan volumes off-set the negative impact of eroding margins resulting from the low and even declining interest rate environment, intensifying competition and tighter regulatory framework. Furthermore, the y-o-y weakening HUF against all local currencies across the Group had an upward pressure on P&L lines.

The overall credit quality has been stable, the ratio of Stage 3 loans declined further and the annual credit risk cost rate increased only moderately.

On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in this Summary incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. The consolidated accounting income statement and balance sheet can be found in the Financial Data section of this Summary, whereas the transparent presentation of the differences between the adjusted and accounting financial statements in the Supplementary Data section, respectively.

The full-year 2019 consolidated accounting after tax profit was HUF 412.6 billion, against HUF 318.3 billion reached in the base period, marking a 30% y-o-y increase.

The accounting ROE was 20.3% (+1.6 pps y-o-y).

The total volume of adjustment items in 2019 represented –HUF 6.5 billion (after tax), i.e. less than in 2018. Adjustment items were the follows:

- –HUF 16.2 billion negative impact of banking tax paid at the Hungarian, Slovakian and Romanian subsidiaries (after tax);
- –HUF 8.4 billion (after tax) on the effect of acquisitions line, which included the goodwill impairment booked in 2Q 2019 in relation to the Romanian subsidiary, and the tax shield stemming from the recognition or reversal of impairment charges booked in relation to the revaluation of investments in certain subsidiaries accounted for in 4Q 2019;
- –HUF 1.6 billion negative effect on the optional conversion of Serbian CHF mortgage loans into EUR;
- +HUF 19.3 billion acquisition effect (after tax), which included those items that were directly related to the recently completed acquisitions and on-going integration projects, as well as one-off effect of the sale of the Slovakian bank announced in February 2020;
- +HUF 0.5 billion dividend and cash transfer (after tax).

In 2019 OTP Group posted HUF 419 billion adjusted after tax profit underpinning a 29% y-o-y increase. Without the contribution of the newly acquired Bulgarian, Albanian, Moldavian, Montenegrin and Serbian banks the annual profit would be HUF 389.7 billion (+20% y-o-y). The effective tax rate moderated by 0.2 pp y-o-y to 10.1%. The profit before tax increased by 28% y-o-y.

Out of the annual profit it was still OTP Core posting the highest individual net results (HUF 191 billion). Regarding the annual performances all subsidiaries managed to improve their earnings. Given its weight, the Bulgarian operation excelled itself with HUF 67.9 billion, followed by the Ukrainian (HUF 35.2 billion), Croatian (HUF 30.7 billion) and Russian profit contributions (HUF 28.1 billion). Besides, several other subsidiaries doubled or even tripled their annual profit. Of them the most outstanding improvement belonged to OTP Fund Management (Hungary): as a result of its all-time high success fee income the bottom-line profit jumped to 3.5-fold y-o-y (to HUF 15.1 billion).

When comparing the individual profit contributions of the newly acquired banks one should consider that their consolidation took place in different times.

In particular, the Bulgarian Expressbank contributed around HUF 18 billion through a 12-months period; the Albanian subsidiary brought in HUF 2.6 billion between April–December 2019 (9 months); both the Montenegrin and Moldavian subsidiaries contributed HUF 1.9 billion between August–December (5 months), whereas the newly acquired Serbian subsidiary boosted consolidated earnings by HUF 5 billion in 4Q (with its full quarterly earnings).

As a result these five new entities brought in HUF 29.4 billion in total into the consolidated adjusted profit in 2019. In the case of the newly acquired Slovenian SKB Banka only its balance sheet was consolidated; its P&L contribution will be consolidated from 2020.

Based on those figures the share of the non-Hungarian operations' profit contribution within the Group's total profit increased from 38% in 2018 to 46% in 2019.

The consolidated adjusted ROE increased to 20.6% (+1.5 pps y-o-y). Out of that the Ukrainian subsidiary excelled itself with an annual ROE of 42.5%.

Since certain elements of the management guidance for 2019 were adjusted for acquisitions, in the below section the without acquisition balance sheet and P&L developments are also presented.

In 2019 total income grew by 22% y-o-y (+14% without acquisitions). The annual operating income advanced by 33% (+21% w/o acquisitions), whereas total risk costs jumped by 80% y-o-y (+46% w/o acquisitions), within that credit costs grew by 53%.

Despite the continued margin erosion and the more intense competition, the annual net interest income grew by 18% (+9% w/o acquisitions). Net fee and commission income had an excellent run (+28% y-o-y, and +21% w/o acquisitions), which, to a great extent, was related to the Hungarian operation: in 2019 the success fee revenues at OTP Fund Management (Hungary) comprised HUF 14 billion (versus HUF 1 billion in the previous year). Also, along-side the stronger transactional volumes and business activity, distribution fee revenues related to the retail Hungarian Government Bond Plus (MÁP Plus) gave further boost to this line at OTP Core.

The other net non-interest income grew by 45% y-o-y (+34% without acquisitions). On one hand this was shaped by the consolidation of the newly acquired banks, but stronger FX and securities gains helped, too.

The annual NIM was shaped by several factors: the low and further declining interest rate environment, stronger competition, the dilution effect of lower margins of the newly acquired subsidiaries, but also the weaker HUF (annual average HUF/UAH rate: –13.5%, HUF/RUB: –4.1%). As a result the annual net interest margin dropped by 19 bps y-o-y to 4.12%. However, the net interest margin adjusted for the acquisitions eroded only marginally (–4 bps y-o-y to 4.27%).

On a stand-alone base the single biggest NIM erosion hit the Russian operation (the Russian margin dropped from 15.21% to 13.58%), whereas the Bulgarian and Core operations faced continued margin erosion, albeit at a slower magnitude (from 3.37% to 3% and from 3.01% to 2.92%, respectively). Only the Ukrainian subsidiary enjoyed a NIM improvement y-o-y (from 9.21% to 9.55%).

Consolidated operating costs grew by 14% y-o-y, whereas the FX-adjusted increase without the effect of acquisitions was 6%. All cost elements grew: personnel expenses leaped by 12% reflecting the elevated wage inflation practically in every country.

Amortization grew even faster, by 17% y-o-y. Administrative expenses advanced by 16% as a result of higher expenses supporting general banking activities (rental fees, office equipment costs), higher supervisory contributions and also the growing digital transformation expenses.

The consolidated cost-to-income ratio dropped by 3.7 pps y-o-y to 52.7%, whereas the cost-to-asset indicator declined from 3.57% to 3.31%.

Cost synergy benefits were already utilized at the Croatian operation throughout 2019.

In 2019 the consolidated FX-adjusted performing (Stage 1+2) loan volumes surged by 48%, by around HUF 4,000 billion y-o-y, out of which the organic growth represented 15% (HUF 1,252 billion). It was positive that volumes increased at all Group members and in each category.

As for the major credit categories in 2019 the Stage 1+2 micro and small enterprise book advanced the fastest y-o-y (+54%, and –3% w/o acquisitions), followed by the corporate portfolio (+52% and +17%) and the consumer exposure (+48% and +28%). The FX-adjusted mortgage loan portfolio advanced by 39% y-o-y (+9% w/o acquisitions).

Regarding the individual performances, y-o-y the Hungarian (+21%, within that +81% for consumer credits), Ukrainian (+27%), Romanian (+23%) and Croatian (+15%) organic loan expansions were the most remarkable.

In case of other operations the yearly loan volume dynamics were distorted by acquisitions.

The FX-adjusted deposit portfolio grew slower than loans, by 34% y-o-y (+11% adjusted for the acquisitions).

As a result, the consolidated net loan-to-deposit ratio grew the fastest during the last couple of years and reached 79% (+7 pps y-o-y).

At the end of 4Q 2019 the gross operative liquidity reserves of the Group comprised EUR 7.4 billion equivalent.

In line with the improving macroeconomic environment and the steadily good recovery results of the work-out activity, risk indicators in total improved.

At the end of 2019 the ratio of Stage 3 loans was 5.9% (–2.7 pps y-o-y); the ratio of Stage 2 loans stood at 5.3% (–1.5 pps y-o-y).

In 2019 the DPD90+ volume growth (HUF 81 billion adjusted for FX and the effect of sales and write-offs, as well as for the one-off inclusion effect of newly acquired banks) was higher than in 2018 (HUF 24 billion).

The consolidated DPD90+ ratio dropped significantly (–2.1 pps y-o-y) to 4.2%, lower than before the financial crisis. The decline was supported by sales and write-offs, too, in 2019 as a whole in the amount of HUF 133 billion (FX-adjusted), mainly at the Russian and Ukrainian subsidiaries.

At OTP Core the DPD90+ ratio shrank to 3.2% (–1.3 pps y-o-y). The consolidated annual risk cost rate was 0.28% versus 0.23% in 2018.

Consolidated capital adequacy ratio (in accordance with BASEL III)

At the end of December 2019 the consolidated Common Equity Tier1 ratio under IFRS – including the annual net result less the proposed dividend amount – was 13.9%. This ratio equals to the Tier1 ratio.

Credit rating, shareholder structure

The sovereign rating improved in February 2019: both S&P Global and Fitch upgraded Hungary's rating to 'BBB'. Roughly a year later, on 27 January 2020 S&P Global raised OTP Bank Plc.'s and OTP Mortgage Bank's short and long term issuer credit ratings from 'BBB–/A–3' to 'BBB/A–2'. S&P affirmed its 'BBB/A–2' long- and short-term resolution counterparty ratings on OTP Bank and OTP Mortgage Bank. The outlook remained stable for both banks. OTP Bank long-term foreign-currency deposit rating by Moody's remained unchanged, i.e. it is 'Baa3' with stable outlook. Moody's assigned 'Ba1' foreign currency rating to the subordinated notes

(Tier2) issued by OTP Bank Plc. on 15 July 2019. Furthermore, on 17 July 2019 the long-term local currency deposit rating of OTP Bank Plc. was upgraded from 'Baa2' to 'Baa1'. Simultaneously, OTP Mortgage Bank's issuer rating was upgraded by Moody's from 'Baa3' to 'Baa2' with stable outlook. OTP Mortgage Bank's covered bond rating remained 'Baa1'. On 29 July 2019 Fitch upgraded OTP Bank Russia' 'BB' rating to 'BB+', the outlook is stable. Similar decision was made at the Bulgarian Expressbank: it was upgraded to 'BB+' from 'BB', the outlook is stable.
Regarding the ownership structure of the Bank, on 31 December 2019 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.58%), the Kafijat Ltd. (6.89%), OPUS Securities SA (5.18%) and Groupama Group (5.13%).

POST BALANCE SHEET EVENTS

Hungary

- On 27 January 2020, S&P Global Ratings raised its long- and short-term issuer credit ratings (ICRs) on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB/A-2' from 'BBB-/A-3'; while the 'BBB/A-2' long- and short-term resolution counterparty ratings (RCR) on both banks were affirmed. The outlooks are stable.
- As a result of a group-wide Supervisory Review And Evaluation Process (SREP) the National Bank of Hungary imposed the below additional capital requirements for OTP Group, on consolidated level:
  - 0.78 pp in case of the Common Equity Tier1 (CET1) capital, accordingly the minimum requirement for the consolidated CET1 ratio is 5.28% (without regulatory capital buffers);
  - 1.03 pps in case of the Tier1 capital, accordingly the minimum requirement for the consolidated Tier1 ratio is 7.03% (without regulatory capital buffers);
- 1.38 pps in case of the Total SREP Capital Requirement (TSCR), accordingly the minimum requirement for the consolidated capital adequacy ratio is 9.38% (without regulatory capital buffers).
- According to the preliminary statistics published by the Hungarian Central Statistical Office in 4Q 2019 the GDP advanced by 4.5% y-o-y, as a result the annual growth rate was 4.9%. Due to the increasing external risk factors the Government cut back its original 4% growth estimation to 3.5% for 2020.
- On 14 February 2020 S&P Global Ratings revised its outlook from stable to positive on Hungary's sovereign credit ratings ('BBB').
- On 17 February 2020 OTP Bank announced that it signed an agreement about the sale of its 99.44% stake in its Slovakian subsidiary to the Belgian KBC Bank NV.

Romania

- On 11 January 2020 the Government Emergency Ordinance no. 1/2020 ruled that "in the year 2020 the tax on assets is not calculated and not due".

Russia

- On 21 January 2020 a new Russian government has been approved with Mikhail Mishustin as Prime Minister.
- On 7 February 2020 the Russian Central Bank cut the key policy rate from 6.25% to 6%.

Ukraine

- On 30 January 2020 the Ukrainian Central Bank lowered its benchmark interest rate by 250 bps to 11%.

Croatia

- The Croatian Supreme Court ruling in September 2019 concerning the unfairness of unilateral amendment and the FX variability clauses of the CHF-based consumer loans, and the opinion announced by the Civil Division of the Supreme Court in January 2020 about the statute of limitations, and also the upcoming ruling of the Supreme Court (due until the 17 of March) about the scope of the loan contracts the declared unfairness refers to, can potentially have ramifications on the Croatian subsidiary of OTP Bank. The potential financial effect, however, cannot be quantified at the moment. Borrowers may sue the banks for reimbursement individually. The final verdict of the Supreme Court can be contested at the Constitutional Court of Republic of Croatia.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[2]

	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Banks total[1]	308,831	385,622	25
OTP Core (Hungary)[2]	180,445	190,956	6
Corporate Centre[3]	6,190	3,478	(44)
DSK Group (Bulgaria)[4]	47,293	67,879	44
OBH (Croatia)[5]	24,961	30,719	23
OTP Bank Serbia[6]	2,999	10,430	248
OTP Bank Romania[7]	3,850	6,309	64
OTP Bank Ukraine[8]	24,415	35,223	44
OTP Bank Russia[9]	16,420	28,127	71
CKB Group (Montenegro)[10]	2,214	6,377	188
OTP Bank Albania	–	2,616	
Mobiasbanca (Moldova)	–	1,936	
OBS (Slovakia)[11]	44	1,575	
Leasing	9,827	7,115	(28)
Merkantil Bank (Hungary)[12]	7,437	7,115	(4)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[13]	2,391		
Asset Management	4,159	15,208	266
OTP Asset Management (Hungary)	4,122	15,104	266
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[14]	37	104	179
Other Hungarian Subsidiaries	1,601	9,498	493
Other Foreign Subsidiaries[15]	388	232	(40)
Eliminations	528	1,377	161
Total adjusted after tax profit of HUNGARIAN subsidiaries[16]	200,323	227,527	14
Total adjusted after tax profit of FOREIGN subsidiaries[17]	125,012	191,525	53
Share of foreign profit contribution	38%	46%	19

Note: Effective from 2019 foreign leasing companies are shown as part of their local operations.

[2] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of recognized income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Dividends and net cash transfers (after tax)	457	505	11
Goodwill/investment impairment charges (after tax)	(4,729)	(8,427)	78
Special tax on financial institutions (after corporate income tax)	(15,286)	(16,170)	6
Impact of fines imposed by the Hungarian Competition Authority (after tax)	565	0	(100)
Effect of acquisitions (after tax)	(6,844)	19,265	(381)
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after tax)	18,823	0	(100)
One-off impact of regulatory changes related to FX consumer contracts in Serbia	0	(1,644)	
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Before tax profit	**362,734**	**465,973**	**28**
Operating profit	**384,908**	**510,045**	**33**
Total income	**881,726**	**1,077,727**	**22**
Net interest income	**599,832**	**706,298**	**18**
Net fees and commissions	**220,731**	**282,504**	**28**
Other net non-interest income	**61,163**	**88,926**	**45**
Foreign exchange result, net	33,568	45,177	35
Gain/loss on securities, net	2,461	12,372	403
Net other non-interest result	25,134	31,376	25
Operating expenses	**(496,818)**	**(567,682)**	**14**
Personnel expenses	(249,447)	(280,002)	12
Depreciation	(48,210)	(56,383)	17
Other expenses	(199,161)	(231,298)	16
Total risk costs	**(26,167)**	**(47,107)**	**80**
Provision for impairment on loan and placement losses	(19,283)	(29,474)	53
Other provision	(6,885)	(17,633)	156
Total one-off items	**3,993**	**3,034**	**(24)**
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap agreement at OTP Core	3,993	3,034	(24)
Corporate taxes	**(37,400)**	**(46,921)**	**25**
Indicators	**2018**	**2019**	**%/pps**
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Net fee and commission margin	1.58%	1.65%	0.06
Net other non-interest income margin	0.44%	0.52%	0.08
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Non-interest income/total income	32%	34%	2
EPS base (HUF) (from unadjusted net earnings)	1,215	1,576	30
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS base (HUF) (from adjusted net earnings)	1,243	1,602	29
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Comprehensive Income Statement	**2018**	**2019**	**%**
Consolidated after tax profit	318,322	412,582	30
Fair value changes of financial instruments measured at fair value through other comprehensive income	(20,323)	30,224	(249)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	(9)	11	(222)
Net investment hedge in foreign operations	(3,253)	(2,526)	(22)
Foreign currency translation difference	10,007	79,440	694
Change of actuarial costs (IAS 19)	(65)	(161)	148
Net comprehensive income	**304,679**	**519,570**	**71**
o/w Net comprehensive income attributable to equity holders	304,813	518,802	70
Net comprehensive income attributable to non-controlling interest	(134)	768	(673)

Average exchange rate* of the HUF	2018 HUF	2019 HUF	Change %
HUF/EUR	319	325	2
HUF/CHF	276	292	6
HUF/USD	270	291	8

* Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position...

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (ECB repo eligible security portfolio on Group level reaches EUR 1.2 billion). As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising. The EUR 500 million Tier2 bond issuance in second half of the year served the purpose of optimizing the capital structure of the bank.

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2019 the gross liquidity buffer was around EUR 7.4 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. No long-term foreign currency receiver FX-swaps (vs. HUF) were executed during 2019 and the ECB refinancing facilities were not utilized. FX liquidity reserves are at safe levels (at EUR 1.7 billion on 31 December 2019).

The volume of issued securities decreased by 6% y-o-y, mainly because in contract

to 2018, in 2019 OTP Mortgage bank did not issue any mortgage bonds, thus the net amount of newly issued retail bonds and matured retail and mortgage bonds was negative. In the last 12 months the amount of retail targeted bonds decreased by HUF 1.5 billion to close to HUF 3 billion.

The volume of subordinated debt trebled y-o-y, mainly due to the aforementioned EUR 500 million Tier2 bond issuance.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 21,97 billion in total.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank.

Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. The strategic open position has been kept since 2007, and its size has been constant at EUR 310 million since 2008. The revaluation result of the strategic open position is accounted for directly against the equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2018 HUF million	2019 HUF million	Change %
TOTAL ASSETS	**14,590,288**	**20,121,767**	**38**
Cash, amounts due from Banks and balances with the National Banks	1,547,272	1,841,963	19
Placements with other banks, net of allowance for placement losses	420,606	410,433	(2)
Financial assets at fair value through profit or loss	181,355	251,991	39
Securities at fair value through other comprehensive income	1,883,849	2,427,537	29
Net customer loans	8,066,592	12,247,519	52
Net customer loans (FX-adjusted*)	**8,306,712**	**12,247,519**	**47**
Gross customer loans	8,719,342	12,942,009	48
Gross customer loans (FX-adjusted*)	**9,001,577**	**12,942,009**	**44**
o/w Retail loans	5,480,960	7,619,989	39
Retail mortgage loans (incl. home equity)	2,609,698	3,471,008	33
Retail consumer loans	2,223,583	3,190,556	43
SME loans	647,680	958,425	48
Corporate loans	3,203,486	4,774,075	49
Loans to medium and large corporates	2,899,818	4,395,789	52
Municipal loans	303,668	378,285	25
Car financing loans	317,131	547,946	73
Allowances for loan losses	(652,751)	(694,490)	6
Allowances for loan losses (FX-adjusted*)	(694,866)	(694,490)	0
Associates and other investments	17,592	20,822	18
Securities at amortized costs	1,740,520	1,995,627	15
Tangible and intangible assets, net	420,484	605,673	44
o/w Goodwill, net	91,766	105,298	15
Tangible and other intangible assets, net	328,718	500,375	52
Other assets	312,018	320,201	3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**14,590,288**	**20,121,767**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	392,706	846,158	115
Deposits from customers	11,285,085	15,522,654	38
Deposits from customers (FX-adjusted*)	**11,547,410**	**15,522,654**	**34**
o/w Retail deposits	8,435,273	11,217,326	33
Household deposits	6,972,763	9,228,802	32
SME deposits	1,462,510	1,988,524	36
Corporate deposits	3,100,793	4,290,769	38
Deposits to medium and large corporates	2,389,687	3,502,442	47
Municipal deposits	711,106	788,327	11
Accrued interest payable related to customer deposits	11,344	14,560	28
Liabilities from issued securities	417,966	393,167	(6)
o/w Retail bonds	4,732	3,237	(32)
Liabilities from issued securities without retail bonds	413,235	389,930	(6)
Other liabilities	586,445	818,561	40
Subordinated bonds and loans**	81,429	249,937	207
Total shareholders' equity	**1,826,657**	**2,291,288**	**25**

Indicators	2018	2019	%/pps
Loan/deposit ratio (FX-adjusted*)	78%	83%	5
Net loan/(deposit + retail bond) ratio (FX-adjusted*)	72%	79%	7
Stage 1 loan volume under IFRS 9		11,489,554	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9	591,870	685,885	16
Stage 2 loans under IFRS 9/gross customer loans	6.8%	5.3%	(1.5)
Own coverage of Stage 2 loans under IFRS 9		10.7%	
Stage 3 loan volume under IFRS 9	753,033	766,570	2
Stage 3 loans under IFRS 9/gross customer loans	8.6%	5.9%	(2.7)
Own coverage of Stage 3 loans under IFRS 9		65.2%	
90+ days past due loan volume	551,498	541,467	(2)
90+ days past due loans/gross customer loans	6.3%	4.2%	(2.1)

* For the FX-adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
** The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

Consolidated capital adequacy (Basel3)	2018	2019	%/pps
Capital adequacy ratio (consolidated, IFRS)	18.3%	16.3%	(2.0)
Tier1 ratio	16.5%	13.9%	(2.6)
Common Equity Tier1 ('CET1') capital ratio	16.5%	13.9%	(2.6)
Regulatory capital (consolidated)	1,731,970	2,321,248	34
o/w Tier1 Capital	1,565,247	1,985,666	27
o/w Common Equity Tier1 capital	1,565,247	1,985,666	27
Tier2 Capital	166,723	335,582	101
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit & Market & Operational risk)	9,488,916	14,262,197	50
o/w RWA (Credit risk)	7,966,050	12,529,878	57
RWA (Market & Operational risk)	1,522,866	1,732,319	14

Closing exchange rate	2018 HUF	2019 HUF	Change %
HUF/EUR	322	331	3
HUF/CHF	285	304	7
HUF/USD	281	295	5

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of profit or loss:

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	180,445	190,956	6
Corporate income tax	(14,717)	(12,668)	(14)
Pre-tax profit	195,162	203,624	4
Operating profit	144,577	173,995	20
Total income	378,534	432,013	14
Net interest income	245,934	261,754	6
Net fees and commissions	107,010	126,911	19
Other net non-interest income	25,590	43,349	69
Operating expenses	(233,956)	(258,018)	10
Total risk costs	46,591	26,594	(43)
Provision for impairment on loan and placement losses	48,192	30,332	(37)
Other provisions	(1,601)	(3,737)	133
Total one-off items	3,993	3,034	(24)
Revaluation result of the treasury share swap agreement	3,993	3,034	(24)

Indicators	2018	2019	pps
ROE	12.2%	11.7%	(0.5)
ROA	2.2%	2.1%	(0.1)
Operating profit margin	1.8%	1.9%	0.2
Total income margin	4.64%	4.82%	0.18
Net interest margin	3.01%	2.92%	(0.09)
Net fee and commission margin	1.31%	1.42%	0.10
Net other non-interest income margin	0.31%	0.48%	0.17
Operating costs to total assets ratio	2.9%	2.9%	0.0
Cost/income ratio	61.8%	59.7%	(2.1)
Provision for impairment on loan and placement losses/average gross loans*	(1.60%)	(0.88%)	0.72
Effective tax rate	7.5%	6.2%	(1.3)

* Negative Provision for impairment on loan and placement losses/average gross loans ratio implies positive amount on the Provision for impairment on loan and placement losses line.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet (closing balances)	2018 HUF million	2019 HUF million	Change %
Total Assets	8,563,425	9,641,692	13
Net customer loans	3,096,391	3,740,975	21
Net customer loans (FX-adjusted)	**3,112,187**	**3,740,975**	**20**
Gross customer loans	3,241,345	3,883,412	20
Gross customer loans (FX-adjusted)	**3,258,458**	**3,883,412**	**19**
Retail loans	1,971,206	2,376,885	21
Retail mortgage loans (incl. home equity)	1,329,600	1,383,774	4
Retail consumer loans	425,790	746,269	75
SME loans	215,816	246,842	14
Corporate loans	1,287,252	1,506,527	17
Loans to medium and large corporates	1,201,815	1,404,773	17
Municipal loans	85,437	101,754	19
Provisions	(144,954)	(142,437)	(2)
Provisions (FX-adjusted)	**(146,270)**	**(142,437)**	**(3)**
Deposits from customers + retail bonds	5,967,857	6,770,161	13
Deposits from customers + retail bonds (FX-adjusted)	**6,000,083**	**6,770,161**	**13**
Retail deposits + retail bonds	4,072,038	4,505,485	11
Household deposits + retail bonds	3,278,499	3,562,244	9
o/w Retail bonds	4,732	3,237	(32)
SME deposits	793,539	943,241	19
Corporate deposits	1,928,045	2,264,676	17
Deposits to medium and large corporates	1,321,304	1,624,880	23
Municipal deposits	606,741	639,796	5
Liabilities to credit institutions	236,700	445,301	88
Issued securities without retail bonds	461,138	436,340	(5)
Total shareholders' equity	1,561,688	1,720,872	10
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		3,550,841	
Stage 1 loans under IFRS 9/gross customer loans		91.4%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		163,954	
Stage 2 loans under IFRS 9/gross customer loans		4.2%	
Own coverage of Stage 2 loans under IFRS 9		12.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	190,682	168,618	(11.6)
Stage 3 loans under IFRS 9/gross customer loans	5.9%	4.3%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		55.4%	
90+ days past due loan volume (in HUF million)	147,218	123,895	(16)
90+ days past due loans/gross customer loans	4.5%	3.2%	(1.4)
Market Shares	**2018**	**2019**	**pps**
Loans	20.8%	22.2%	1.4
Deposits	25.7%	27.7%	2.0
Total Assets	26.2%	28.8%	2.6
Performance Indicators	**2018**	**2019**	**pps**
Net loans to (deposits + retail bonds) (FX-adjusted)	52%	55%	3
Leverage (closing Shareholder's Equity/Total Assets)	18.2%	17.8%	(0.4)
Leverage (closing Total Assets/Shareholder's Equity)	5.5x	5.6x	0.1x
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS)	28.2%	26.6%	(1.6)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, IFRS)	26.2%	22.6%	(3.6)

- OTP Core's adjusted full-year after tax profit amounted to HUF 191 billion (+6% y-o-y). Regarding the structure of profit growth, a 20% improvement in operating profit was offset by smaller amounts of positive risk costs
- Despite a 9 bps erosion in net interest margin, total income margin improved in 2019
- Amid favourable credit quality trends the ratio of Stage 3 loans declined to 4.3%
- The growth in retail loans accelerated in 2019, while corporate loan growth moderated after the outstanding expansion in 2018. Stage 1+2 loans surged by 21% y-o-y (FX-adjusted), boosted by the introduction of subsidized baby loans in July
- The double-digit growth in deposit volumes was coupled with a 3 pps improvement in net loan/deposit ratio. Retail deposits continued to trend higher, even with the MÁP Plus government bond for retail customers being introduced in June

The scope of companies comprising OTP Core has changed from 2019: OTP Real Estate Lease Ltd. was moved from OTP Core to Other Hungarian Subsidiaries. At the end of December, the gross loan portfolio of OTP Real Estate Lease amounted to HUF 23.4 billion, while performing (Stage 1+2 loans under IFRS 9) loan volumes reached HUF 22 billion, of which mortgage loans amounted to HUF 19.3 billion. OTP Real Estate Lease Ltd.'s adjusted after tax profit was HUF 0.35 billion in 2019.
Starting from 2019, OTP Ingatlanpont LLC and OTP Mobile Service Limited Liability Company were included into OTP Core. These two companies recorded a combined loss of HUF 0.6 billion in 2019.
On 30 September 2019 two companies (previously presented among other Hungarian subsidiaries) merged into Monicomp Ltd., which is part of OTP Core.

P&L developments

In 2019 **OTP Core** generated HUF 191 billion adjusted after tax profit. The 6% y-o-y growth rate owes mainly to a 20% increase in operating profit, which was partly counterbalanced by the declining amount of positive risk costs.
The annual pre-tax profit improved by 4% y-o-y. The annual operating profit (without one-off items) grew by 20%, largely driven by the 14% increase in total income. The full-year net interest income was up 6%, mostly owing to the continued dynamic organic growth in loan volumes, but the revenues were also boosted by the gross interest income realized from the placement of additional liquidity supported by the rise in customer deposits.
In an environment determined by low short-term interest rates and sinking long-term yields, the full-year net interest margin moderated by 9 bps y-o-y to 2.92%. The average interest rates of both the loan portfolio and liquid assets have decreased. Furthermore, the share of non-interest-bearing assets (including the investments in subsidiaries) increased within the balance sheet total.
The annual net fees and commissions increased by 19%, as the growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. It was also positive that securities distribution fees for the whole year showed a 21% y-o-y growth after the declining trend prevailing since 2H 2017. The reason was that the Government Debt Management Agency – parallel with the amendment to the distribution fee calculation methodology – introduced a new retail government bond, the Hungarian Government Security Plus (MÁP Plus) from June 2019; its volumes have significantly increased owing to the outstanding new sales volumes.
The annual other net non-interest income (without one-offs) surged by 69% y-o-y, largely because of the higher gain on securities.
The revaluation result of the treasury share swap agreement (showed among the one-off revenue items) amounted to HUF 3 billion in 2019 (–24% y-o-y), owing predominantly to the dividend income received in the second quarter.
Operating expenses grew by 10% in 2019. Personnel expenses were shaped, among others, by the 5% rise in the average number of employees, as well as by the fact that in 3Q and 4Q 2019 part of the cumulated wage cost of the IT developers employed by OTP Bank was allocated for certain software in use, and activated for the systems developed – in the amount of HUF 2.1 billion in total.
Another factor that reduced the dynamics of personnel costs was that, in accordance with the six-year wage agreement, employers pay 2 pps lower social contribution tax rate (17.5%) starting from July 2019. Moreover, amortization grew in y-o-y terms, and within other expenses, IT hardware and licence costs, facility management and telecommunications expenses, and deductible taxes have all increased.
Loan quality trends remained favourable: DPD90+ loan volumes fell by HUF 3 billion in 2019 (FX-adjusted and without problem loan sales and write-offs). In 2019 altogether HUF 16 billion problem loans were sold/written off. The decreasing trend in the share

of DPD90+ loans continued: the rate dropped by 1.4 pps to 3.2% y-o-y. The share of Stage 3 loans also remained on a downward path (4.3%, -1.5 pps y-o-y); their own provision coverage stood at 55.4%.

On the total risk costs line, a positive amount of HUF 26.6 billion was recognized in 2019, mainly due to the recoveries realized on claims toward households handled by OTP Factoring, the Hungarian work-out company. The amount of positive risk costs was 43% less than in the base period.

Balance sheet trends

The continued strengthening of OTP Core's business activity was coupled with further increase in business volumes, and a steady increase of the balance sheet total.

On the asset side, gross loans surged 19% y-o-y, while performing (Stage 1+2) loans expanded by 21% (FX-adjusted), largely driven by an outstanding, 81% jump in consumer loans. Thus, the performing loan growth in 2019 exceeded the previous year's 18% level.

The quarterly rise in performing loans demonstrated an accelerating trend in 2019: a seasonally weak first quarter (q-o-q stagnation) was followed by FX-adjusted q-o-q growth rates of 5% in 2Q, 8% in 3Q, and 7% in 4Q.

The increasing growth rates seen in the second half of the year were driven by the strong demand for consumer loans, fuelled also by the introduction of the subsidized baby loans, while corporate loan growth decelerated compared to last year: in 2018 corporate and SME loans expanded by nearly 30% overall, which came down to 18% in 2019. This represents a pronounced shift in the structure of loan growth, towards retail loans.

The Hungarian Government introduced the subsidized baby loan scheme for families in July 2019, which generated significant additional loan demand. OTP Bank's clients were particularly interested in this product: nearly 22,000 loan contracts were signed in the second half of the year, with an average ticket size of HUF 9.5 million – this brings the contracted amount of baby loans between July and December 2019 to HUF 209 billion. Accordingly, OTP's respective market share was nearing 45% in the second half of the year.

In a favourable development, the introduction of baby loans did not break the increasing demand for personal loans: new cash loans granted by OTP Bank expanded by 26% in 2019 as a whole. Based on this, OTP Bank's market share in new cash loan disbursements exceeded 39% in 2019 (+0.8 pp y-o-y).

The performing personal loan volumes grew by 27% y-o-y. Based on the outstanding stock, OTP Bank's market share in cash loans stood at 33.2% at the end of December.

As a result, performing (Stage 1+2) total consumer loans jumped by 81% y-o-y.

Performing mortgage loans were up 7% y-o-y (filtering out the effect of the exclusion of OTP Real Estate Lease from OTP Core).

The performing mortgage loan portfolio consists of two product segments: housing loans, which make up 82% of the stock volumes, grew steadily by double-digit rates (+12% y-o-y). The volume of mortgage-backed consumer loans (or home equities), the weight of which is 18%, is gradually shrinking (-11% y-o-y) as amortization exceeds new disbursements.

New mortgage loan disbursements expanded by 12% y-o-y in 2019. In 2019 OTP Bank's market share in new mortgage loan contractual amounts reached 31.6%, up from 29.2% in 2018. In the second half of the year the market share gains could to a large extent be attributable to the increasing demand for subsidized housing loans – in this field OTP Bank traditionally has a strong market share.

Customers continue to prefer, almost exclusively, the more predictable fixed-rate housing loans: at OTP Bank, the share of loans with fixed interest rate for at least five years, was above 99% of all new market-based housing loan applications in 2019 (up from near-50% levels in 2017). Within that, the popularity of loans with longer-term interest rate fixation periods (for 10 and 20 years) has been gradually increasing.

OTP Bank has been actively contributing to the success of the Housing Subsidy Scheme for Families (CSOK) programme, which was expanded by the Government from July 2019. In 2019 more than 17 thousand applications for the CSOK subsidy were registered at OTP Bank with a value of HUF 74 billion.

After the outstanding dynamics in previous years, corporate loan growth lost some steam, but they continued to expand by a strong, double-digit rate (+18%) in 2019. Within that, loans to medium and large corporates surged 18%, and loans to municipalities expanded by 19%. Performing loans to micro and small enterprises expanded by 14% y-o-y (FX-adjusted).

Under the Funding for Growth Scheme Fix, which was launched at the beginning of 2019 by the National Bank of Hungary, OTP Bank received loan requests in the amount of close to HUF 60 billion.

OTP Bank has been actively participating in the Bond Funding for Growth Scheme of the NBH. As a lead manager, in the course of 2019 OTP Bank participated in 3 already completed bond issuances with a total notional of HUF 46 billion; additionally, there were further issuances in progress at the end of the year. In the case of the 3 deals where OTP Bank acted as lead manager, the Bank has underwritten bonds in the amount of HUF 6 billion, whereas altogether HUF 21 billion was underwritten from bonds issued under the umbrella of the Bond Funding for Growth Scheme.

Because of the recent acquisitions and capital increases at subsidiaries, on the asset side the volume of investments in subsidiaries as well as its share within the balance sheet total grew further (by 1.3 pps to 12.2% on average), strongly contributing to the rise in the share of non-interest-bearing assets within total assets.

OTP Core's deposit base (including retail bonds) grew by an FX-adjusted 13% y-o-y. Despite the launch of the popular MÁP Plus retail government bond in June, the annual growth rate of household deposits reached 11%. The expansion rate in medium and large corporate deposits reached 23% y-o-y. Municipalities' deposits grew by 5% y-o-y.

The net loan/(deposit + retail bond) ratio rose by 3 pps y-o-y to 55%, but despite the improvement, the absolute level of the ratio can still be regarded as low.

In July 2019 the Bank issued a Tier2 capital instrument in the nominal amount of EUR 500 million, which is part of the standalone regulatory capital of OTP Bank, but it is reported in the balance sheet of the Corporate Centre.

Similarly to previous years, the Bank's regulatory capital at the end of 2019 included the interim profit less proposed dividend. The Bank's standalone capital adequacy ratio (CAR) stood at 26.6% at the end of December 2019, while the CET1=Tier1 ratio reached 22.6%.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	4,122	15,104	266
Income tax	(403)	(1,438)	256
Profit before income tax	4,525	16,542	266
Operating profit	4,525	16,542	266
Total income	7,121	20,433	187
Net fees and commissions	7,196	19,800	175
Other net non-interest income	(75)	633	(940)
Operating expenses	(2,596)	(3,891)	50
Other provisions	0	0	
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Eszközök Total	16.821	33.688	100
Saját tőke	14.353	24.828	73
Asset under management	**2018 HUF billion**	**2019 HUF billion**	**Change %**
Assets under management, total (w/o duplicates)*	**1,035**	**1,119**	**8**
Volume of investment funds (closing, w/o duplicates)	749	793	6
Volume of managed assets (closing)	286	326	14
Volume of investment funds (closing, with duplicates)**	**982**	**1,073**	**9**
bond	217	315	45
security	153	188	23
mixed	55	73	32
guaranteed	32	28	(14)
money market	129	6	(96)
other***	395	464	18

OTP Fund Management's HUF 15 billion after tax profit in 2019 was more than three and a half times bigger than a year earlier. This outstanding result was supported by HUF 14 billion success fee revenues recognized in 4Q 2019, which exceeded the amount of total success fees received in the previous four years. 85% of the full-year success fees were related to the OTP Supra derivative investment fund's performance. OTP Supra boasted a yield of nearly 24% in 2019, and the success fee is 20% of the positive difference between the fund's yield and the ZMAX benchmark index. In addition to OTP Supra, the Company's other derivative and mixed funds also excelled.

Full-year operating costs grew by 50% y-o-y, largely as a result of the bonus payments booked in the last quarter of the year.

The market of investment funds underwent significant restructuring in 2019. First, regulatory changes that stipulate substantially stricter operating conditions prompted many fund managers to amend the investment policy of their money market funds, and even to close some of their funds, bringing about a technical shift towards bond funds. In the case of OTP Fund Management, three of the former four money market funds were transformed into short-term bond funds at the beginning of the year, and the remaining one became a money market fund without capital guarantee. Second, the strong demand for the Hungarian Government Security Plus, available since the beginning of June 2019, redirected money from investment funds, particularly from bond funds. The assets managed by OTP Fund Management partly reflected the effect of the above developments: there was a rearrangement towards bond funds (+45% y-o-y) and equity funds (+23% y-o-y), and a previously most popular category, money market funds, were squeezed out: their volume shrank to HUF 6 billion (-96% y-o-y) by the end of December. On the other hand, the effect of the new Hungarian Government Security Plus was offset by the positive capital inflow to the Company's derivative funds, chiefly because of OTP Supra's popularity. Overall, the closing volume of the Company's investment funds expanded by 9% y-o-y.

Increasing its market share by 1.3 pps y-o-y to 23.6% by the end of December, OTP Fund Management upheld its market leader position on the securities fund market.

* The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.

** The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.

*** Other funds: absolute return, derivative and commodity market funds.

Performance of Merkantil Bank:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	7,437	7,115	(4)
Income tax	456	(632)	(239)
Profit before income tax	6,981	7,747	11
Operating profit	6,599	7,372	12
Total income	12,983	14,369	11
Net interest income	13,131	14,013	7
Net fees and commissions	(124)	(104)	(16)
Other net non-interest income	(24)	461	
Operating expenses	(6,384)	(6,997)	10
Total provisions	382	375	(2)
Provision for impairment on loan and placement losses	256	143	(44)
Other provision	126	232	84
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	404,750	491,399	21
Gross customer loans	321,353	366,064	14
Gross customer loans (FX-adjusted)	322,042	366,064	14
Retail loans	29,658	30,244	2
Corporate loans	104,058	126,422	21
Car financing loans	188,325	209,398	11
Allowances for possible loan losses	(13,853)	(10,072)	(27)
Allowances for possible loan losses (FX-adjusted)	(13,868)	(10,072)	(27)
Deposits from customers	15,180	10,414	(31)
Deposits from customer (FX-adjusted)	15,180	10,414	(31)
Retail deposits	13,307	8,051	(40)
Corporate deposits	1,873	2,364	26
Liabilities to credit institutions	337,136	420,076	25
Total shareholders' equity	37,189	44,441	19
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		345,339	
Stage 1 loans under IFRS 9/gross customer loans		94.3%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		7,459	
Stage 2 loans under IFRS 9/gross customer loans		2.0%	
Own coverage of Stage 2 loans under IFRS 9		4.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	14,133	13,267	(6)
Stage 3 loans under IFRS 9/gross customer loans	4.4%	3.6%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		63.4%	
Provision for impairment on loan and placement losses/average gross loans	(0.08%)	(0.04%)	0.04
90+ days past due loan volume (in HUF million)	10,204	7,364	(28)
90+ days past due loans/gross customer loans	3.2%	2.0%	(1.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.9%	1.6%	(0.3)
ROE	24.4%	17.4%	(7.0)
Total income margin	3.38%	3.20%	(0.18)
Net interest margin	3.42%	3.12%	(0.29)
Cost/income ratio	49.2%	48.7%	(0.5)

On 30 September 2018 Merkantil Car Ltd. was merged into Merkantil Bank Ltd. and ceased to exist as a separate legal entity. The above table includes the contribution of Merkantil Car for the 2018 base periods, too.

Merkantil Bank posted HUF 7.1 billion adjusted after tax profit in 2019 (-4% y-o-y); this is consistent with an ROE of 17.4%. Taking into account the increase in the corporate tax burden for 2019, the year-on-year pre-tax profit increase of 11% was largely due to the higher net interest income, while the twelve-month risk costs remained positive.

Net interest income for 2019 increased by 7% y-o-y. The dynamics was positively influenced by the growth of the performing loan portfolio (+15% y-o-y), which was partially offset by the narrowing net interest margin (-29 bps y-o-y).

The 10% y-o-y increase in operating expenses was mainly driven by personnel expenses.

Credit quality trends continued to develop favourably: in 2019 the DPD90+ loan portfolio declined by HUF 1 billion (FX-adjusted and excluding the impact of loan sales and write-offs).

At the end of 2019, the ratio of Stage 3 loans was 3.6% (–0.8 pp y-o-y), whereas the own provision coverage of Stage 3 loans was 63.4%. In 2019 HUF 2.3 billion non-performing loans were sold/written off.

Performing (Stage 1+2) loan volumes rose by 15% y-o-y. Total new disbursements increased by 19% y-o-y, including the 19% expansion of new car loans and the 17% growth of the financing of production equipment and machinery. Merkantil Bank retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

IFRS reports of the main foreign subsidiaries of OTP Bank

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	47,293	67,879	44
Income tax	(4,308)	(7,199)	67
Profit before income tax	51,601	75,078	45
Operating profit	57,096	83,495	46
Total income	107,817	155,567	44
Net interest income	69,979	109,030	56
Net fees and commissions	30,435	42,019	38
Other net non-interest income	7,403	4,517	(39)
Operating expenses	(50,720)	(72,071)	42
Total provisions	(5,495)	(8,418)	53
Provision for impairment on loan and placement losses	(9,532)	(5,216)	(45)
Other provision	4,038	(3,201)	(179)
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	2,381,275	3,669,766	54
Gross customer loans	1,343,729	2,350,694	75
Gross customer loans (FX-adjusted)	1,381,368	2,350,694	70
Retail loans	958,860	1,446,035	51
Corporate loans	422,508	863,331	104
Car financing loans		41,327	
Allowances for possible loan losses	(111,369)	(135,640)	22
Allowances for possible loan losses (FX-adjusted)	(114,487)	(135,640)	18
Deposits from customers	1,890,897	3,015,805	59
Deposits from customers (FX-adjusted)	1,946,301	3,015,805	55
Retail deposits	1,702,923	2,528,233	48
Corporate deposits	243,378	487,572	100
Liabilities to credit institutions	3,144	59,867	
Total shareholders' equity	453,891	528,759	16
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		2,081,790	
Stage 1 loans under IFRS 9/gross customer loans		88.6%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		99,917	
Stage 2 loans under IFRS 9/gross customer loans		4.3%	
Own coverage of Stage 2 loans under IFRS 9		8.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	141,513	168,986	19
Stage 3 loans under IFRS 9/gross customer loans	10.5%	7.2%	(3.3)
Own coverage of Stage 3 loans under IFRS 9		62.0%	
Provision for impairment on loan and placement losses/average gross loans	0.74%	0.24%	(0.51)
90+ days past due loan volume (in HUF million)	89,986	108,600	21
90+ days past due loans/gross customer loans	6.7%	4.6%	(2.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.3%	1.9%	(0.4)
ROE	18.4%	13.7%	(4.7)
Total income margin	5.20%	4.28%	(0.92)
Net interest margin	3.37%	3.00%	(0.37)
Cost/income ratio	47.0%	46.3%	(0.7)
Net loans to deposits (FX-adjusted)	65%	73%	8
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/BGN (closing)	164.4	169.0	3
HUF/BGN (average)	163.0	166.3	2

- **The financial closure of the Expressbank deal was completed on 15 January 2019, thus the 2019 financial statements included the full-year contribution of the Express Group**
- **The Bulgarian banking group generated HUF 67.9 billion adjusted profit in 2019, of which Express Group's contribution amounted to HUF 17.9 billion. The return on equity ratio was 13.7%**
- **Part of the erosion in the full-year net interest margin was due to the dilution effect of Expressbank's lower margin**
- **Stage 1+2 loans grew by an FX-adjusted 77% in 2019, of which organic growth amounted to 12%. Deposits rose by 9% organically**

The 2019 financial statements of DSK Group include the full-year contribution of Expressbank and its subsidiaries.
The Bulgarian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effects.
Starting from 2019, DSK Leasing is presented as part of the Bulgarian operation.
The performance in the 2018 base period does not include DSK Leasing's contribution; then DSK Leasing was presented under Foreign Leasing Companies. The adjusted after tax profit of DSK Leasing in 2019 amounted to HUF 0.9 billion; at the end of 2019 its Stage 1+2 loan volumes amounted to HUF 20 billion, while the number of employees was 19 (on FTE basis).
In 2019, **DSK Group** posted HUF 67.9 billion after tax profit (+44%), of which Express Group's contribution was HUF 17.9 billion in full year 2019. Thus, the Bulgarian operation's annual profit increased by 4% y-o-y even without Expressbank's contribution and the inclusion of DSK Leasing.
Based on total assets, the market share of OTP's Bulgarian operation stood at 19.5% at the end of December 2019 on pro-forma basis.
The total number of branches in Bulgaria has declined by 28 units (–6%) since 1Q 2019, which already included Expressbank's branches. Headcount decreased by 206 people, or 3%, since 1Q.
The y-o-y dynamics of balance sheet and P&L lines were predominantly determined by the consolidation of Expressbank and its subsidiaries.

The full-year operating profit of the Bulgarian operation jumped by 46%, or HUF 26.4 billion, practically by the same as the amount delivered by Expressbank and DSK Leasing.
Total annual income expanded by 44% (or by 2% without the inclusion of Expressbank and DSK Leasing), largely driven by net interest income (+56%, or +9% without the inclusion of Expressbank and DSK Leasing). The annual net interest margin shrank by 37 bps, partly because of the dilution effect stemming from the lower margin of the newly consolidated Express Group, and due to the continued margin erosion at DSK Bank (without Expressbank).
The reasons for the drop in full-year other net non-interest income was partially the decline in the swap result booked within other income (–HUF 2.3 billion y-o-y), as well as the deterioration in the foreign exchange result, while Expressbank and DSK Leasing generated a combined HUF 2 billion other income in 2019.
Full-year operating costs were up 5% without the acquisition and leasing inclusion effect, mostly as a result of higher personnel, real-estate-related, as well as hardware and office equipment costs.
In 2019 a total risk cost of HUF 8.4 billion weighed on the profit, 53% more than in 2018. This increase was related to other risk costs, since following the release in 2018, HUF 3.2 billion other risk cost was created in 2019, largely in connection with some off-balance sheet items. The other component of total risk costs, the provision for impairment on loan and placement losses fell by 45% in 2019 from the previous year, thus the full-year credit risk cost rate amounted to 24 bps (–51 bps y-o-y).
Credit quality indicators continued to develop favourably. The FX-adjusted DPD90+ volumes

without loan sales and write-offs increased by HUF 8 billion in 2019 (on top of that, the technical effect of Expressbank's inclusion caused HUF 9 billion growth). In 2019 HUF 9 billion problem loans were sold or written off. The ratio of Stage 3 loans stood at 7.2% at the end of December, marking a 3.3 pps y-o-y improvement. The own provision coverage of Stage 3 loans was at 62% at the end of the year.

As a result of the acquisition, Stage 1+2 (performing) loans grew by an FX-adjusted 77% y-o-y; or, excluding the acquisition and the leasing inclusion, by 12%. In addition to the organic growth in the stock of loans, new placements also indicate that, in terms of business activity, the Bulgarian operation remained on a growth path even during the on-going integration project: without Expressbank, new cash loan sales grew by 20%, and mortgage loan disbursements rose by 3% y-o-y in the course of 2019.

Overall, deposits grew by 55% in 2019; without the Expressbank acquisition they rose by 9% (FX-adjusted). Net loan/deposit ratio (73%) was up 8 pps y-o-y, largely because of the Expressbank-related composition effect.

At the end of 2019 the capital adequacy ratio of DSK Bank, which owns Expressbank's shares, was 27.2% according to local rules.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,961	30,719	23
Income tax	(5,638)	(6,681)	19
Profit before income tax	30,599	37,400	22
Operating profit	35,456	42,925	21
Total income	78,295	85,069	9
Net interest income	54,059	56,812	5
Net fees and commissions	16,042	17,032	6
Other net non-interest income	8,194	11,225	37
Operating expenses	(42,840)	(42,144)	(2)
Total provisions	(4,857)	(5,525)	14
Provision for impairment on loan and placement losses	(3,046)	(2,835)	(7)
Other provision	(1,811)	(2,691)	49
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	1,837,158	2,098,951	14
Gross customer loans	1,178,848	1,370,057	16
Gross customer loans (FX-adjusted)	1,210,053	1,370,057	13
Retail loans	680,186	741,016	9
Corporate loans	511,651	562,612	10
Car financing loans	18,217	66,428	265
Allowances for possible loan losses	(71,186)	(68,701)	(3)
Allowances for possible loan losses (FX-adjusted)	(73,019)	(68,701)	(6)
Deposits from customers	1,424,746	1,478,223	4
Deposits from customers (FX-adjusted)	1,465,168	1,478,223	1
Retail deposits	1,080,602	1,111,988	3
Corporate deposits	384,566	366,235	(5)
Liabilities to credit institutions	85,702	253,176	195
Total shareholders' equity	269,126	292,649	9
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		1,140,495	
Stage 1 loans under IFRS 9/gross customer loans		83.2%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		143,843	
Stage 2 loans under IFRS 9/gross customer loans		10.5%	
Own coverage of Stage 2 loans under IFRS 9		3.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	89,059	85,719	(4)
Stage 3 loans under IFRS 9/gross customer loans	7.6%	6.3%	(1.3)
Own coverage of Stage 3 loans under IFRS 9		63.6%	
Provision for impairment on loan and placement losses/average gross loans	0.26%	0.22%	(0.04)
90+ days past due loan volume (in HUF million)	65,011	51,012	(22)
90+ days past due loans/gross customer loans	5.5%	3.7%	(1.8)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.4%	1.6%	0.2
ROE	9.6%	10.9%	1.3
Total income margin	4.27%	4.35%	0.08
Net interest margin	2.95%	2.91%	(0.04)
Cost/income ratio	54.7%	49.5%	(5.2)
Net loans to deposits (FX-adjusted)	78%	88%	10
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/HRK (closing)	43.4	44.4	2
HUF/HRK (average)	43.0	43.9	2

- **The HUF 30.7 billion full-year after tax profit, which was consistent with 10.9% ROE, was coupled with higher operating profit and improving cost efficiency**
- **Full-year net interest income grew by 5% y-o-y, fuelled by credit growth, amid slightly eroding net interest margin**
- **The volume of Stage 1+2 loans grew by 6% y-o-y (FX-adjusted, adjusting for the leasing inclusion), largely because of the intensifying consumer lending**

In December 2018 the integration of Splitska banka was successfully completed: Splitska banka d.d. was incorporated into OTP banka Hrvatska d.d., and the business and technology merger was accomplished.
The Croatian P&L account was adjusted for the one-off items related to the acquisition; these corrections are shown at consolidated level among the adjustment items.
The balance sheet items were not adjusted for the acquisition effect.
Starting from 2019, the financial statements of OTP Leasing d.d are presented as part of the OBH Group. The performance in the 2018 base period did not include the contribution of OTP Leasing d.d; then OTP Leasing d.d. was presented under Foreign Leasing Companies. The adjusted after tax profit of OTP Leasing d.d. in 2019 was near HUF 1 billion. At the end of December 2019 the volume of Stage 1+2 loans at the leasing company totalled HUF 105 billion, and the number of employees (on FTE basis) was 121.
The **Croatian operation** posted HUF 30.7 billion after tax profit in 2019 (+23% y-o-y), which is consistent with 10.9% return on equity. Had the Croatian leasing company been included in the 2018 base as part of the Croatian operation, the annual profit growth would have been 17%.
The full-year net interest income increased by 5% y-o-y (but dropped by 1% y-o-y compared with the basis including the leasing company). Although the FX-adjusted Stage 1+2 loans, chiefly driven by consumer loans, expanded by 6% y-o-y adjusted for the leasing inclusion, a decline in consumer loan interest rates reduced net interest margin by 5 bps y-o-y to 2.91%.
The annual net fee and commission income grew by 6% (or by 3% if the leasing was included in the 2018 base period), mostly because of a rise in bank account keeping fees and transaction commission income, as well as higher deposits and cards-related commissions.
The annual operating expenses declined by 4% y-o-y in local currency terms (compared to the basis adjusted for leasing companies, it dropped by 8% in local currency). As a result of the integration process, the average number of full-time employees dropped by 6% y-o-y (to 2,251 people by the end of December).
In 2019 further 8 branches were closed within the framework of branch rationalisation, after the closure of 53 units in 2018. At the end of 2019, the network consisted of 136 units.
Overall, the Croatian operation's full-year cost/income ratio dropped by 5.2 pps y-o-y to 49.5%.
Of the HUF 5.5 billion risk cost that weighed on profit in 2019. In 2019 as a whole, provision for impairment on loan losses was 7% less than a year earlier, and the full-year credit risk cost rate declined by 4 bps y-o-y to 22 bps. The y-o-y rise in other risk costs was related to litigations and to risks costs for large corporate guarantees.
Regarding business activity, performing (Stage 1+2) loans expanded by an FX-adjusted 6% y-o-y compared with the basis adjusted for leasing companies. The new disbursement dynamics of personal loans and mortgage loans increased in y-o-y terms.
At the end of 2019, Stage 3 loans made up 6.3% of total gross loan volumes, which corresponds to 1.3 pps y-o-y improvement. The own coverage of Stage 3 loans represented 63.6%.
FX-adjusted deposit volumes stagnated in y-o-y comparison. In the large corporate segment, which makes up nearly a quarter of the total, sight deposit volumes contracted, while in the retail segment there was a shift from term to sight deposits. The FX-adjusted net loan/deposit ratio grew to 88%.

OTP BANK SERBIA

Performance of OTP Bank Serbia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	2,999	10,430	248
Income tax	(138)	459	(433)
Profit before income tax	3,137	9,970	218
Operating profit	6,227	13,143	111
Total income	30,306	43,276	43
Net interest income	20,514	30,809	50
Net fees and commissions	7,286	9,506	30
Other net non-interest income	2,507	2,962	18
Operating expenses	(24,079)	(30,133)	25
Total provisions	(3,090)	(3,173)	3
Provision for impairment on loan and placement losses	(3,146)	(1,634)	(48)
Other provision	56	(1,539)	
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	590,166	1,659,483	181
Gross customer loans	395,217	1,199,580	204
Gross customer loans (FX-adjusted)	407,642	1,199,580	194
Retail loans	191,970	573,101	199
Corporate loans	215,671	581,658	170
Allowances for possible loan losses	(14,774)	(18,904)	28
Allowances for possible loan losses (FX-adjusted)	(15,278)	(18,904)	24
Deposits from customers	372,961	910,623	144
Deposits from customer (FX-adjusted)	384,772	910,623	137
Retail deposits	268,791	548,472	104
Corporate deposits	115,981	362,150	212
Liabilities to credit institutions	117,169	436,449	272
Subordinated debt	0	24,460	(100)
Total shareholders' equity	84,848	249,461	194
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		1,151,763	
Stage 1 loans under IFRS 9/gross customer loans		96.0%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		21,447	
Stage 2 loans under IFRS 9/gross customer loans		1.8%	
Own coverage of Stage 2 loans under IFRS 9		5.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	18,819	26,370	40
Stage 3 loans under IFRS 9/gross customer loans	4.8%	2.2%	(2.6)
Own coverage of Stage 3 loans under IFRS 9	61.7%	50.0%	
Provision for impairment on loan and placement losses/average gross loans	0.90%	0.25%	(0.65)
90+ days past due loan volume (in HUF million)	15,322	20,702	35
90+ days past due loans/gross customer loans	3.9%	1.7%	(2.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.6%	1.1%	0.6
ROE	3.7%	7.6%	3.9
Total income margin	5.84%	4.70%	(1.14)
Net interest margin	3.95%	3.35%	(0.61)
Cost/income ratio	79.5%	69.6%	(9.8)
Net loans to deposits (FX-adjusted)	102%	130%	28
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RSD (closing)	2.7	2.8	3
HUF/RSD (average)	2.7	2.8	2

- On 24 September the financial closure of the new acquisition in Serbia was completed, thus OTP became the second largest player in the local market
- The Serbian banking group generated HUF 10.4 billion adjusted profit; the bank bought from Societe Générale contributed to this by HUF 5 billion in 4Q
- The full-year net interest margin dropped by 61 bps y-o-y, partly reflecting the diluting effect of the lower margin of the newly acquired bank
- The FX-adjusted volume of Stage 1+2 loans tripled y-o-y, within which organic growth amounted to 19% in comparison with the basis adjusted for leasing inclusion. The increase in FX-adjusted deposits reflected the effect of the acquisition

On 24 September the financial closure of the Société Générale banka Srbija transaction, announced on 20 December 2018, was completed. As a result, OTP Bank became 100% owner of the Serbian subsidiary of Société Générale Group and its subsidiaries. Following the transaction, the name of the acquired bank was changed to OTP banka Srbija.

The Serbian operation's full-year 2019 consolidated financial statements include the acquired bank's figures starting from September, but only its 4Q contribution was presented in OTP Group's P&L account.

The Serbian P&L statement was adjusted for the one-off items related to the acquisitions; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.

Starting from 2019, OTP Lizing d.o.o is presented as part of the Serbian operation. The performance in the 2018 base period did not include the contribution of OTP Lizing d.o.o.; then OTP Lizing d.o.o. was presented as part of the Foreign Leasing Companies. The full-year 2019 adjusted after tax profit of OTP Lizing d.o.o. amounted to HUF 145 million. At the end of December 2019, Stage 1+2 loans totalled HUF 28 billion, while the number of employees was 33 (on FTE basis).

The loss recognized during the reporting period relating to the conversion of outstanding CHF mortgage loans to EUR loans at customers' request, commenced in April and closed on 19 July, was shown at consolidated level among the adjustment items.

OTP Bank Serbia (which includes the results of Vojvodjanska banka, OTP banka Srbija, as well as of OTP Factoring Serbia d.o.o. and OTP Lizing d.o.o.) generated HUF 10.4 billion after tax profit in 2019; within that the newly acquired bank's contribution was HUF 5 billion in the fourth quarter.

Following the financial closure of the acquisition at the end of September, the Serbian operation's total market share by balance sheet total jumped to 13.7% on pro forma basis, according to the latest available data, at the end of September 2019. The acquisition added 93 units to the network, bringing the total number of branches to 240. Of the total headcount of 3,162 at the end of December, the acquired banks added 1,290 workers (on FTE basis).

The y-o-y dynamics of balance sheet lines were primarily shaped by the acquisition. At the end of December, the acquired bank's gross loan volume amounted to HUF 732 billion, its performing loans (Stage 1+2 under IFRS 9) reached HUF 723 billion, while customer deposits totalled HUF 525 billion, the balance sheet total hit HUF 998 billion. The newly consolidated bank is an active player in the retail and corporate segment, as well.

The Serbian banking group's operating profit (HUF 13 billion) doubled in y-o-y terms; the growth practically reflects the effect of the acquisition.

The annual total income surged by 43% (it stagnated without the acquisition and the inclusion of the leasing company). Net interest income jumped by 50% y-o-y, while net interest margin dropped by 61 bps, partially due the lower margin of the newly acquired bank and due to technical effect: only 3 months P&L contribution from the newly acquired bank was included in the Group, but its volumes were incorporated as at the end of September, thus the acquisition diluted the margin. Regarding the underlying processes, the erosion of the margin continued in 4Q, partly reflecting the lower interest environment in the aftermath of step-by-step cuts of the benchmark rate.

Overall, full-year operating cost level rose by one quarter, but without the effect of the acquisition and the inclusion of the leasing company, it remained at the 2018 level y-o-y. The cost/income ratio has significantly improved in both y-o-y terms.

In 2019 altogether HUF 3 billion risk cost weighed on the profit (+3% y-o-y). Most of the full-year risk cost was recognized in 4Q, partly because the parameters for PD and LGD, as well as for the macroeconomic environment, were revised in the IFRS 9 provisioning models, which resulted in one-off additional provisioning in the fourth quarter.

Other risk costs amounted to –HUF 1.5 billion, mostly because of contingent liabilities relating to litigations, mainly in the fourth quarter.

The share of Stage 3 loans dropped to 2.2% by the end of December. The coverage of Stage 3 loans dropped by 11.7 ppts to 50%. The reason for the latter, and also for the significantly declining Stage 3 ratio was that during the consolidation of the newly acquired bank, Stage 3 volumes were netted with the related provisions.

The lending activity intensified in 2019. The performing (Stage 1+2) loan volumes doubled, within that organic growth represented 16%. On top of the 3% y-o-y organic growth, FX-adjusted deposit volumes expanded to more than 2.5 fold as a result of the acquisition.

Consequently, due to the above developments the Serbian operation's net loan/deposit ratio edged up to 130%.

SKB BANKA (SLOVENIA)

Performance of SKB Banka (Slovenia):

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	-
Income tax	-
Profit before income tax	-
Operating profit	-
Total income	-
Net interest income	-
Net fees and commissions	-
Other net non-interest income	-
Operating expenses	-
Total provisions	-
Provision for impairment on loan and placement losses	-
Other provision	-
Main components of balance sheet (closing balances)	**2019**
Total assets	1,130,871
Gross customer loans	831,139
Gross customer loans (FX-adjusted)	831,139
Retail loans	489,134
Corporate loans	225,942
Car financing loans	116,062
Allowances for possible loan losses	(4,051)
Allowances for possible loan losses (FX-adjusted)	(4,051)
Deposits from customers	880,839
Deposits from customers (FX-adjusted)	880,839
Retail deposits	773,337
Corporate deposits	107,225
Liabilities to credit institutions	94,909
Total shareholders' equity	132,667
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	822,118
Stage 1 loans under IFRS 9/gross customer loans	98.9%
Own coverage of Stage 1 loans under IFRS 9	0.4%
Stage 2 loan volume under IFRS 9 (in HUF million)	0
Stage 2 loans under IFRS 9/gross customer loans	0.0%
Own coverage of Stage 2 loans under IFRS 9	0.0%
Stage 3 loan volume under IFRS 9 (in HUF million)	9,020
Stage 3 loans under IFRS 9/gross customer loans	1.1%
Own coverage of Stage 3 loans under IFRS 9	8.7%
Provision for impairment on loan and placement losses/average gross loans	-
90+ days past due loan volume (in HUF million)	2,967
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	**2019**
ROA	-
ROE	-
Total income margin	-
Net interest margin	-
Cost/income ratio	-
Net loans to deposits (FX-adjusted)	94%
FX rates	**2019 HUF**
HUF/EUR (closing)	330.5
HUF/EUR (average)	331.9

- **The Slovenian subsidiary (SKB Banka) was consolidated in December 2019, therefore its results will be consolidated only from 1Q 2020**
- **The Stage 3 ratio stood at 1.1% at the end of 2019, the net loan-to-deposit ratio reached 94%**

In line with the purchase agreement signed on 3 May 2019 by OTP Bank Plc. and the Société Générale Group, the financial closure of the transaction was completed on 13 December 2019. As a result, OTP Bank has become the 99.73% owner of SKB Banka. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The end-2019 balance sheet of the Slovenian bank was consolidated but its result will be presented in OTP Group's P&L account starting from 2020 (in the reporting period, the realized profit was accounted for directly against the equity).

OTP's **Slovenian** subsidiary is the fourth largest bank in Slovenia by balance sheet total, with nearly 9% market share. SKB Banka had 53 branches and had 863 employees (on FTE basis) at the end of December 2019. The bank's balance sheet total amounted to HUF 1.131 billion, its gross loans made up HUF 831 billion, and customer deposits totalled HUF 881 billion at the end of 2019.

At the end of 2019 Stage 3 loans represented 1.1% of gross loan volumes. The own provision coverage of Stage 3 loans stood at 8.7% – Stage 3 loans were netted with provisions upon the Slovenian bank's consolidation. If this netting hadn't happened, the own coverage of Stage 3 loans would have been 63.5%.

At the end of 2019 the Stage 2 loan volumes amounted to zero because in the opening balance the Stage 2 volumes were moved to Stage 1 category, and the provisioning level was also aligned with that.

Performance of OTP Bank Romania:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	3,850	6,309	64
Income tax	(1,051)	(598)	(43)
Profit before income tax	4,902	6,906	41
Operating profit	10,585	12,314	16
Total income	30,759	37,530	22
Net interest income	23,410	28,254	21
Net fees and commissions	3,563	3,180	(11)
Other net non-interest income	3,786	6,097	61
Operating expenses	(20,174)	(25,216)	25
Total provisions	(5,683)	(5,408)	(5)
Provision for impairment on loan and placement losses	(4,794)	(3,018)	(37)
Other provision	(890)	(2,390)	169
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	771,968	953,345	23
Gross customer loans	577,565	708,299	23
Gross customer loans (FX-adjusted)	585,678	708,299	21
Retail loans	403,463	479,401	19
Corporate loans	182,214	216,843	19
Allowances for possible loan losses	(35,444)	(39,327)	11
Allowances for possible loan losses (FX-adjusted)	(36,141)	(39,327)	9
Deposits from customers	434,937	546,350	26
Deposits from customers (FX-adjusted)	439,305	546,350	24
Retail deposits	335,514	409,728	22
Corporate deposits	103,791	136,623	32
Liabilities to credit institutions	232,391	257,404	11
Total shareholders' equity	60,047	116,432	94
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		593,922	
Stage 1 loans under IFRS 9/gross customer loans		83.9%	
Own coverage of Stage 1 loans under IFRS 9		1.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		61,556	
Stage 2 loans under IFRS 9/gross customer loans		8.7%	
Own coverage of Stage 2 loans under IFRS 9		5.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	51,771	52,821	2
Stage 3 loans under IFRS 9/gross customer loans	9.0%	7.5%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		53.7%	
Provision for impairment on loan and placement losses/average gross loans	0.85%	0.47%	(0.39)
90+ days past due loan volume (in HUF million)	29,583	35,416	19.7
90+ days past due loans/gross customer loans	5.1%	5.0%	(0.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.6%	0.7%	0.2
ROE	7.5%	6.6%	(0.9)
Total income margin	4.46%	4.37%	(0.09)
Net interest margin	3.39%	3.29%	(0.11)
Cost/income ratio	65.6%	67.2%	1.6
Net loans to deposits (FX-adjusted)	125%	122%	(3)
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RON (closing)	69.0	69.1	0
HUF/RON (average)	68.5	68.6	0

- The Romanian operation generated a profit of HUF 6.3 billion in 2019 (+64% y-o-y)
- The annual operating profit improved by 16% as a result of 22% increase in total income and 25% growth of operating costs
- The 23% y-o-y FX-adjusted growth of Stage 1+2 loans was supported by strong mortgage and corporate credit dynamics
- As a result of dynamic deposit expansion (+24% y-o-y adjusted) the net loan-to-deposit ratio improved

Starting from 2019, the financial statements of OTP Leasing Romania are presented as part of OTP Bank Romania. The performance in the 2018 base period does not comprise OTP Leasing Romania's contribution; it was then presented as part of Foreign leasing companies. The adjusted after tax profit of OTP Leasing Romania in 2019 was -HUF 0.4 billion; its Stage 1+2 loan volumes amounted to HUF 27.6 billion, and the number of employees was 49 (on FTE basis) at the end of 2019.

In the 2019, OTP Bank Romania generated HUF 6.3 billion after tax profit, a 64% increase compared to the base period. The annual operating profit grew by 16%, as a result of 22% increase in total income, and 25% growth in operating expenses. The 21% y-o-y improvement in net interest income was largely supported by the strong dynamics in performing (Stage 1+2) loan volumes, while the net interest margin slightly dropped (-11 bps). The annual net fees and commissions declined by 11% y-o-y. The downtrend can be explained by the base effect of product-specific factors[3]. The twelve month other net non-interest income grew by 61%, which was driven by unrealized gains on inter-group derivative transactions and higher FX gains.

In 2019 operating costs surged by 25% y-o-y. The year-on-year and fourth-quarter cost increases were partly due to the Bank's growth strategy: higher personnel costs were driven by both general wage inflation and the 18% increase in average headcount (excluding OTP Leasing Romania +14%). In addition, the Bank paid higher sales commissions for the increased disbursements. Administrative expenses surged as a combined effect of stronger business activity, higher expert fees in relation to the implementation of the Bank's growth strategy, and charges paid to supervisory authorities.

Regarding loan quality, in 2019 DPD90+ loans (FX-adjusted, without sales and write-offs) rose by HUF 8 billion, whereas in 2018 a decrease of HUF 2 billion was registered. Large part of the deterioration was attributable to corporate loans falling into the DPD90+ category during 2Q 2019.

The ratio of Stage 3 loans to total gross loans was 7.5% (-1.5 pps y-o-y). Reasons for the lower ratio included selling and writing off of bad loans; the ratio's decline was also supported by the higher gross loan volumes.

Risk costs showed a 5% y-o-y decrease, within that provisions on loans diminished by 37%. The 2019 other risk cost figure was adversely affected by an item emerged in 3Q: in the third quarter of 2019, the Romanian factoring company, OTP Factoring SRL (which is presented as part of the Romanian operation) injected capital into some of its subsidiaries because of their negative own capital, consequently an impairment was booked which appeared in the Romanian result because these subsidiaries were out of the scope of consolidation.

The 94% y-o-y rise in shareholders' equity was attributable to fact that OTP Bank Romania received a RON 320 million (about HUF 22 billion) capital increase by its parent bank in the third quarter.

Business activity has meaningfully intensified along the Bank's organic growth strategy: mortgage lending surged by 74% y-o-y, so their FX-adjusted performing (Stage 1+2) volume increased by 21% y-o-y, while the cash loan volumes rose by 15% y-o-y. Performing (Stage 1+2) MSE loans increased by 32% y-o-y and corporate exposures by 17%.

The FX-adjusted deposit volumes increased by 24% y-o-y, driven by both the retail and corporate segments. Net loan-to-deposit ratio stood at 122% at the end of 4Q (-3 pps y-o-y).

In the fourth quarter HUF 373 million bank tax was recognized, which was presented on consolidated level among adjustments, therefore it did not appear in the Romanian adjusted income statement.

[3] Customers received bonuses, booked as fee expense, after certain banking products, if they managed to fulfil contractual conditions. In 2018 the amount of bonuses was lower due to non-fulfilment of contractual conditions, which resulted in higher fee expense y-o-y.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,415	35,223	44
Income tax	(4,760)	(6,937)	46
Profit before income tax	29,175	42,160	45
Operating profit	30,095	44,353	47
Total income	47,145	67,451	43
Net interest income	33,040	48,128	46
Net fees and commissions	11,444	14,877	30
Other net non-interest income	2,661	4,446	67
Operating expenses	(17,050)	(23,098)	35
Total provisions	(920)	(2,194)	138
Provision for impairment on loan and placement losses	(1,680)	(1,433)	(15)
Other provision	760	(761)	
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	391,240	646,295	65
Gross customer loans	354,258	468,715	32
Gross customer loans (FX-adjusted)	407,119	468,715	15
Retail loans	149,345	155,012	4
Corporate loans	226,925	268,800	18
Car financing loans	30,849	44,903	46
Allowances for possible loan losses	(72,753)	(69,785)	(4)
Allowances for possible loan losses (FX-adjusted)	(82,627)	(69,785)	(16)
Deposits from customers	269,832	431,944	60
Deposits from customers (FX-adjusted)	312,645	431,944	38
Retail deposits	140,346	189,125	35
Corporate deposits	172,299	242,819	41
Liabilities to credit institutions	48,197	79,331	65
Subordinated debt	4,903	5,397	10
Total shareholders' equity	57,821	109,128	89
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		345,955	
Stage 1 loans under IFRS 9/gross customer loans		73.8%	
Own coverage of Stage 1 loans under IFRS 9		0.9%	
Stage 2 loan volume under IFRS 9 (in HUF million)		41,847	
Stage 2 loans under IFRS 9/gross customer loans		8.9%	
Own coverage of Stage 2 loans under IFRS 9		8.3%	
Stage 3 loan volume under IFRS 9 (in HUF million)	88,604	80,913	(9)
Stage 3 loans under IFRS 9/gross customer loans	25.0%	17.3%	(7.7)
Own coverage of Stage 3 loans under IFRS 9		77.9%	
Provision for impairment on loan and placement losses/average gross loans	0.51%	0.34%	(0.16)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	0.46%	0.33%	(0.13)
90+ days past due loan volume (in HUF million)	53,534	51,913	(3)
90+ days past due loans/gross customer loans	15.1%	11.1%	(4.0)
Performance Indicators	**2018**	**2019**	**pps**
ROA	6.8%	7.0%	0.2
ROE	55.6%	42.5%	(13.1)
Total income margin	13.15%	13.38%	0.23
Net interest margin	9.21%	9.55%	0.33
Cost/income ratio	36.2%	34.2%	(1.9)
Net loans to deposits (FX-adjusted)	104%	92%	(11)
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/UAH (closing)	10.1	12.4	23
HUF/UAH (average)	9.9	11.3	14

- The Ukrainian subsidiary posted the highest ROE within subsidiary banks across the Group (42.5%); annual profit reached HUF 35.2 billion
- 2019 profit after tax increased by 27% y-o-y in UAH terms mainly due to improving operating profit and moderate risk cost
- The Ukrainian subsidiary excelled itself as the only bank within OTP Group posting improving annual net interest margin
- The Stage 3 ratio declined a by 7.7 pps to 17.3% y-o-y on the back of non-performing asset sale and write-offs, as well as expanding gross loan volumes
- Performing (Stage 1+2) loan volumes advanced by 27% y-o-y (FX-adjusted)

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: in 2019 the closing rate of UAH appreciated by 23% y-o-y against the HUF, while the annual average rate strengthened 14% y-o-y. As a result, there are some differences in local currency P&L and balance sheets dynamics versus those in HUF terms.

OTP Bank Ukraine posted all-time high HUF 35.2 billion after tax profit in 2019 underpinning a 44% increase against the base period (+27% in local currency terms). The annual ROE reached 42.5% the highest among subsidiary banks across the Group.

Given the significant HUF/UAH FX rate moves y-o-y, we rather analyse the P&L developments in UAH terms.

The annual operating result surged by 30% y-o-y in UAH terms as a result of the steady expansion of business volumes. Net interest income surged by 28% y-o-y, whereas net fee and commission income grew by 14% and other net non-interest income jumped one and a half times. At the same time operating expenses advanced by 19% y-o-y.

NII dynamics y-o-y were favourably affected by the fact that the average loan portfolio grew faster than the average deposit base. It was also positive, that the average interest income on credit card, leasing and large enterprise exposures improved, whereas there was a declining trend at cash loans and POS-loans. The annual NIM increased to 9.55% (+0.33 pp y-o-y): the mix of outstanding loans gradually shifted towards higher margin consumer loans, while the policy rate was cut by 4.5% during 2019 through several steps.

Annual net F&C income jumped by 14% y-o-y in 2019 supported mainly by corporate transactions and card related retail fee income, but the increase in deposit volumes had its positive effect, too.

Operating expenses in UAH terms increased by 19% y-o-y in 2019 with an average inflation of 8%. This was mainly driven by higher personnel expenses as a result of wage increase and 1.5% higher average number of employees, as well as higher operational expenses induced by stronger business activity.

Despite higher operating expenses, the cost-to-income ratio improved y-o-y and its level (34.2%) was the lowest across the Group.

Total provisions increased by 161% in UAH terms against the base period, whereas provisions for impairment on loan and placement losses declined by 19% y-o-y (in UAH). The overall credit quality is still favourable: annual risk cost rate moderated to 0.34% (–16 bps y-o-y). The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) grew by HUF 12 billion in 2019.

During the past 12 months problem loans were sold or written-off in the amount of about HUF 21 billion.

Stage 3 loans to total gross loans ratio decreased to 17.3% by end-2019 (–7.7 pps y-o-y). The FX-adjusted Stage 1+2 loan book grew by 27% y-o-y. As for the yearly development the growth of the car financing was the strongest (+48%), but consumer lending grew rapidly, too (+40%) on the back of accelerating origination activity (+17% y-o-y). Corporate exposures expanded by 25% y-o-y.

Deposits (adjusted for the FX-effect) leaped by 38% y-o-y, so the balance sheet structure is still well-balanced: the net loan-to-deposit ratio stood at 92% at the end of December 2019 (–11 pps y-o-y).

The total outstanding net intragroup funding towards the Ukrainian operation comprised USD 118 million equivalent at the end of 2019, almost flat y-o-y.

Performance of OTP Bank Russia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	16,420	28,127	71
Income tax	(4,614)	(8,272)	79
Profit before income tax	21,034	36,399	73
Operating profit	68,878	84,946	23
Total income	129,899	146,582	13
Net interest income	102,489	113,572	11
Net fees and commissions	26,766	31,012	16
Other net non-interest income	644	1,998	210
Operating expenses	(61,021)	(61,636)	1
Total provisions	(47,844)	(48,547)	1
Provision for impairment on loan and placement losses	(42,204)	(46,123)	9
Other provision	(5,640)	(2,424)	(57)
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	707,593	908,388	28
Gross customer loans	610,355	786,241	29
Gross customer loans (FX-adjusted)	710,935	786,241	11
Retail loans	636,354	685,398	8
Corporate loans	74,471	91,497	23
Car financing loans	111	9,345	
Allowances for possible loan losses	(126,655)	(152,741)	21
Allowances for possible loan losses (FX-adjusted)	(147,436)	(152,741)	4
Deposits from customers	379,911	471,735	24
Deposits from customers (FX-adjusted)	440,409	471,735	7
Retail deposits	350,344	354,076	1
Corporate deposits	90,064	117,659	31
Liabilities to credit institutions	120,156	155,306	29
Subordinated debt	22,522	25,031	11
Total shareholders' equity	147,999	202,761	37
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		589,553	
Stage 1 loans under IFRS 9/gross customer loans		75.0%	
Own coverage of Stage 1 loans under IFRS 9		5.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		94,413	
Stage 2 loans under IFRS 9/gross customer loans		12.0%	
Own coverage of Stage 2 loans under IFRS 9		27.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	84,469	102,274	21
Stage 3 loans under IFRS 9/gross customer loans	13.8%	13.0%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		93.4%	
Provision for impairment on loan and placement losses/average gross loans	7.39%	6.61%	(0.78)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	7.41%	6.57%	(0.84)
90+ days past due loan volume (in HUF million)	81,995	96,484	18
90+ days past due loans/gross customer loans	13.4%	12.3%	(1.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.4%	3.4%	0.9
ROE	10.9%	15.7%	4.8
Total income margin	19.28%	17.53%	(1.75)
Net interest margin	15.21%	13.58%	(1.63)
Cost/income ratio	47.0%	42.0%	(4.9)
Net loans to deposits (FX-adjusted)	128%	134%	6
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RUB (closing)	4.1	4.7	17
HUF/RUB (average)	4.3	4.5	4

- HUF 28 billion after tax profit in 2019 (+66% y-o-y in local currency terms) with 15.7% ROE
- Stage 1+2 volumes (FX-adjusted) grew by 12% underpinning a y-o-y deceleration as a result of tighter underwriting standards
- Annual operating expenses fell 3% y-o-y in RUB terms, the C/I ratio dropped by 5 pps to 42%
- Annual risk cost rate declined to 6.6%; Stage 3 ratio improved by 0.8 pps y-o-y to 13% partially due to balance sheet clean-up
- Deposit volumes growth fell short of the loan expansion, as a result net loan-to-deposit ratio increased to 134%

The HUF denominated financial figures of OTP Bank Russia were significantly affected by the HUF/RUB moves: by the end of 2019, the RUB closing rate appreciated by 17% y-o-y against the HUF. It strengthened 4% y-o-y on average in 2019. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2019 **OTP Bank Russia** posted HUF 28.1 billion after tax profit, which translates into 66% y-o-y improvement in local currency and 15.7% ROE.

Due to the volatility of HUF/RUB exchange rate, it is more reasonable to analyse income dynamics in RUB terms. The annual pre-tax profit grew by 68% y-o-y, as a combined result of an 18% improvement in operating profit and a 3% decline in total provisions.

The 6% y-o-y increase in net interest income was supported by the 12% y-o-y growth of FX-adjusted performing (Stage 1+2) loans, while net interest margin (NIM) dropped by 1.6 pps, to 13.6%. Reasons for the lower NIM included the continued decline in interest rates on consumer loans and a slight increase in average deposit interest rates.

Annual net fee and commission income was up 11% y-o-y in RUB terms, benefiting from an increase of insurance fee income on cash loans with insurance policies and other products growing considerably, as well as a rise in average commission income generated by credit cards and POS loans.

In 2019 operating expenses shrank by 3% y-o-y in RUB terms: the drop in both personnel expenses and amortization, partly associated with the integration of Touch Bank, was counterbalanced by the increase in administrative costs, going up in line with increasing business volumes. On the whole, the annual cost/income ratio improved by 4.9 pps to 42% y-o-y.

In line with tightening underwriting standards annual total risk cost eroded by 3% y-o-y in RUB terms. In 2019 risk cost ratio declined by 78 bps y-o-y to 6.61%.

The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) jumped to HUF 55 billion in 2019 underpinning almost a one and a half times expansion y-o-y. Such increase was partially attributed to the loan portfolio expansion. Over the past twelve months OTP Bank Russia sold or wrote down a gross total of HUF 52 billion in loans.

Overall, the ratio of Stage 3 loans to total gross loans declined by 0.8 pp y-o-y to 13% by the end of 2019. Stage 3 loans' own coverage was 93.4%.

In 2019, the FX-adjusted Stage 1+2 loan book rose by 12% y-o-y underpinning a y-o-y less pronounced volume growth. The consumer loan portfolio grew by 9% y-o-y and the corporate by 19%, respectively. POS loan volumes grew by 11% y-o-y. Cash loan disbursement conditions were tightened during the year, still, during the last twelve months the book increased by 12%. Credit card volumes increased by 5% y-o-y.

FX-adjusted total deposits increased by 7% y-o-y. Corporate deposits displayed a volatile performance, they grew by 31% y-o-y. Net loan-to-deposit ratio (134%) increased by 6% y-o-y.

CKB GROUP (MONTENEGRO)

Performance of CKB Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,214	6,377	188
Income tax	(326)	(679)	108
Profit before income tax	2,540	7,056	178
Operating profit	2,605	5,692	119
Total income	10,729	16,120	50
Net interest income	7,529	11,464	52
Net fees and commissions	3,227	4,215	31
Other net non-interest income	(27)	441	
Operating expenses	(8,125)	(10,428)	28
Total provisions	(65)	1,364	
Provision for impairment on loan and placement losses	(46)	1,293	
Other provision	(19)	71	
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	224,892	439,836	96
Gross customer loans	157,043	319,836	104
Gross customer loans (FX-adjusted)	161,444	319,836	98
Retail loans	75,073	161,601	115
Corporate loans	86,337	158,147	83
Car financing loans	34	88	156
Allowances for possible loan losses	(28,265)	(19,518)	(31)
Allowances for possible loan losses (FX-adjusted)	(29,057)	(19,518)	(33)
Deposits from customers	175,740	318,216	81
Deposits from customers (FX-adjusted)	180,877	318,216	76
Retail deposits	135,092	207,441	54
Corporate deposits	45,785	110,775	142
Liabilities to credit institutions	2,364	36,733	
Total shareholders' equity	38,637	66,188	71
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		283,959	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		12,509	
Stage 2 loans under IFRS 9/gross customer loans		3.9%	
Own coverage of Stage 2 loans under IFRS 9		4.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	33,096	23,369	(29)
Stage 3 loans under IFRS 9/gross customer loans	21.1%	7.3%	(13.8)
Own coverage of Stage 3 loans under IFRS 9		68.2%	
Provision for impairment on loan and placement losses/average gross loans	0.03%	(0.56%)	(0.59)
90+ days past due loan volume (in HUF million)	27,993	17,058	(39)
90+ days past due loans/gross customer loans	17.8%	5.3%	(12.5)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.1%	1.9%	0.9
ROE	7.3%	11.9%	4.6
Total income margin	5.09%	4.86%	(0.23)
Net interest margin	3.57%	3.45%	(0.12)
Cost/income ratio	75.7%	64.7%	(11.0)
Net loans to deposits (FX-adjusted)	73%	94%	21
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

- **The financial closure of the Montenegrin acquisition was completed on 16 July, thus the full-year balance sheet and P&L figures of the Montenegrin operation already included the balance sheet and the five-months profit contribution of the acquired bank**
- **In 2019 the Montenegrin banking group generated HUF 6.4 billion adjusted profit, of which Podgorička banka's five-month profit made up HUF 1.9 billion**
- **The FX-adjusted performing loan volumes jumped by 133% y-o-y, or by 22% without the acquisition**
- **The ratio of Stage 3 loans (7.3%) dropped by 13.8 pps y-o-y**

On 27 February 2019 Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Société Générale banka Montenegro a.d. ('SGM'), the Montenegrin subsidiary of Société Générale Group. The financial closure of the transaction was completed on 16 July 2019. The new name of the acquired bank is Podgorička banka.
In December 2019 minority shareholders were bought out, thus Crnogorska komercijalna banka a.d. became the 100% owner of Podgorička banka.
The Montenegrin P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.
The Montenegrin **CKB Group** posted HUF 6.4 billion after tax profit in 2019 (including Podgorička banka's five-months contribution of HUF 1.9 billion), exceeding that of the base period by 188%.
At the end of December 2019, the combined market share of OTP Bank's operation in Montenegro was 29.5% on pro forma basis. Podgorička banka's network consisted of 20 branches, and the headcount was 255 (on FTE basis) at the end of December.
The 119% jump in full-year operating profit (+49% without the acquisition) reflects a 50% surge in total income (+15% without the acquisition), while operating expenses increased by 28% (+5% without the acquisition).
Full-year net interest income surged by 52% (+11% without the acquisition): due to the strengthening business activity, Stage 1+2 loans continued their growth (+22% y-o-y without the acquisition), which was partly offset by the declining net interest margin.
Full-year net fees and commissions increased by 31% y-o-y (+13% without the acquisition).
The 28% y-o-y growth in operating expenses (+5% without the acquisition) is mainly attributable to an increase in the charges paid to supervisory authorities as well as to higher personnel expenses.
In 2019 as a whole HUF 1.4 billion total risk cost was released; partly because the parameters for PD and LGD, as well as for the macroeconomic environment and outlook were revised in the IFRS 9 provisioning models, and in part owing to the release of other risk cost relating to one corporate customer.
The DPD90+ ratio (5.3%) dropped by 12.5 pps y-o-y. At the end of 2019 the share of Stage 3 exposures was 7.3% (–13.8 pps y-o-y). The own coverage of Stage 3 loans stood at 68.2%.
Performing (Stage 1+2) loans grew by 133% (+22% y-o-y without the acquisition).
FX-adjusted deposit volumes surged by 76% y-o-y (11% without the acquisition). The net loan-to-deposit ratio stood at 94% at the end of the fourth quarter (+21 pps y-o-y).
Based on local calculation rules, the capital adequacy ratio of Crnogorska komercijalna banka a.d., which holds the shares of Podgorička banka, stood at 23.6% at the end of 2019.

OTP BANK ALBANIA (ALBANIA)

Performance of OTP Bank Albania:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	2,616
Income tax	(459)
Profit before income tax	3,075
Operating profit	3,702
Total income	7,953
Net interest income	6,697
Net fees and commissions	1,007
Other net non-interest income	248
Operating expenses	(4,250)
Total provisions	(627)
Provision for impairment on loan and placement losses	(249)
Other provision	(379)
Main components of balance sheet (closing balances)	**2019**
Total assets	247,997
Gross customer loans	147,777
Gross customer loans (FX-adjusted)	147,777
Retail loans	66,593
Corporate loans	79,096
Car financing loans	2,088
Allowances for possible loan losses	(3,657)
Allowances for possible loan losses (FX-adjusted)	(3,657)
Deposits from customers	179,755
Deposits from customers (FX-adjusted)	179,755
Retail deposits	152,883
Corporate deposits	26,872
Liabilities to credit institutions	36,901
Total shareholders' equity	25,605
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	138,579
Stage 1 loans under IFRS 9/gross customer loans	93.8%
Own coverage of Stage 1 loans under IFRS 9	1.2%
Stage 2 loan volume under IFRS 9 (in HUF million)	4,593
Stage 2 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 2 loans under IFRS 9	10.1%
Stage 3 loan volume under IFRS 9 (in HUF million)	4,604
Stage 3 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 3 loans under IFRS 9	33.1%
Provision for impairment on loan and placement losses/average gross loans	0.23%
90+ days past due loan volume (in HUF million)	2,270
90+ days past due loans/gross customer loans	1.5%
Performance Indicators	**2019**
ROA	1.4%
ROE	14.1%
Total income margin	4.27%
Net interest margin	3.59%
Cost/income ratio	53.4%
Net loans to deposits (FX-adjusted)	80%
FX rates	**2019 HUF**
HUF/ALL (closing)	2.7
HUF/ALL (average)	2.6

- The Albanian bank was consolidated in 1Q 2019 and its results appeared in the consolidated P&L from April
- The bank posted HUF 2.6 billion profit after tax profit between April-December 2019
- The Stage 3 ratio was 3.1% by the end of 2019; the net loan-to-deposit ratio was 80%

In line with the purchase agreement signed on 1 August 2018 by OTP Bank Plc. and the Société Générale Group, the financial closure of the Albanian transaction was completed on 29 March 2019. As a result, OTP Bank has become the 100% owner of Banka Société Générale Albania SH.A. The results of the Albanian bank were consolidated in OTP Group's P&L account starting from April 2019. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The Albanian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

OTP Bank Albania posted HUF 2.6 billion after tax profit between April and December 2019.

The full-year ROE (14.1%) and net interest margin (3.59%) were below the Group's average, while the cost/income ratio (53.4%) exceeded it. The annual credit risk cost rate reached 23 bps in the period under review.

At the end of 2019 the Stage 3 loans made up 3.1% of gross loan volumes. The Stage 3 loans of the acquired bank were netted with the related provisions upon its consolidation. The own provision coverage of Stage 3 loans was 33.1%.

The net loan/deposit ratio stood at 80%, above the group's average.

MOBIASBANCA (MOLDOVA)

Performance of Mobiasbanca:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	1,936
Income tax	(174)
Profit before income tax	2,110
Operating profit	2,929
Total income	5,902
Net interest income	3,959
Net fees and commissions	891
Other net non-interest income	1,052
Operating expenses	(2,974)
Total provisions	(819)
Provision for impairment on loan and placement losses	(737)
Other provision	(82)
Main components of balance sheet (closing balances)	**2019**
Total assets	211,043
Gross customer loans	104,763
Gross customer loans (FX-adjusted)	104,763
Retail loans	57,000
Corporate loans	46,339
Car financing loans	1,424
Allowances for possible loan losses	(1,790)
Allowances for possible loan losses (FX-adjusted)	(1,790)
Deposits from customers	161,071
Deposits from customers (FX-adjusted)	161,071
Retail deposits	110,838
Corporate deposits	50,233
Liabilities to credit institutions	12,342
Total shareholders' equity	34,518
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	102,460
Stage 1 loans under IFRS 9/gross customer loans	97.8%
Own coverage of Stage 1 loans under IFRS 9	1.0%
Stage 2 loan volume under IFRS 9 (in HUF million)	880
Stage 2 loans under IFRS 9/gross customer loans	0.8%
Own coverage of Stage 2 loans under IFRS 9	23.6%
Stage 3 loan volume under IFRS 9 (in HUF million)	1,424
Stage 3 loans under IFRS 9/gross customer loans	1.4%
Own coverage of Stage 3 loans under IFRS 9	39.7%
Provision for impairment on loan and placement losses/average gross loans	1.58%
90+ days past due loan volume (in HUF million)	383
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	**2019**
ROA	2.1%
ROE	12.6%
Total income margin	6.31%
Net interest margin	4.23%
Cost/income ratio	50.4%
Net loans to deposits (FX-adjusted)	64%
FX rates	**2019 HUF**
HUF/MDL (closing)	17.1
HUF/MDL (average)	16.6

- The Moldavian bank was consolidated in July 2019, and its results appeared in the consolidated P&L from August
- The Moldovan bank's profit contribution was HUF 1.9 billion in 2019
- The Stage 3 ratio stood at 1.4% at the end of 2019; the net loan to deposit ratio was 64%

In accordance with the purchase agreement signed on 6 February 2019 by OTP Bank and the Société Générale Group, the financial closure of the transaction was completed on 25 July 2019, as a result of which OTP Bank acquired Mobiasbanca – Groupe Société Générale S.A. OTP Bank's shareholding reached 98.26% at the end of 2019.

The Moldavian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

Between August and December 2019 **Mobiasbanca** contributed to OTP Group's adjusted profit by HUF 1.9 billion.

The full-year ROE (12.6%) and the cost/income ratio (50.4%) were below the Group's average, while the net interest margin (4.23%) exceeded it.

The bank's balance sheet total amounted to HUF 211 billion, its gross loans made up HUF 105 billion, and customer deposits totalled HUF 161 billion at the end of 2019. Net loan-to-deposit ratio was 64%, lower than the Group's average.

Based on its total assets, the market share of OTP's Moldavian operation was 13.5% at the end of December 2019; this ranks it the fourth biggest bank in Moldavia. Mobiasbanca's branch network consisted of 53 units, and the bank employed 755 people (on FTE basis) at the end of December.

At the end of 2019 the ratio of Stage 3 loans to total gross loans stood at 1.4%. Stage 3 loans own provision coverage was 39.7%.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko*:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	44	1,575	
Income tax	(56)	(240)	328
Profit before income tax	100	1,815	
Operating profit	2,598	1,625	(37)
Total income	15,014	14,714	(2)
Net interest income	11,148	10,505	(6)
Net fees and commissions	3,536	3,884	10)
Other net non-interest income	330	325	(1)
Operating expenses	(12,416)	(13,089)	5
Total provisions	(2,498)	190	(108)
Provision for impairment on loan and placement losses	(2,579)	604	(123)
Other provision	81	(414)	(609)
Main components of balance sheet (closing balances)	**2018**	**2019**	**%**
Total assets	454,498	473,660	4
Gross customer loans	393,111	392,793	0
Gross customer loans (FX-adjusted)	404,127	392,793	(3)
Retail loans	350,325	336,342	(4)
Corporate loans	53,786	56,444	5
Allowances for possible loan losses	(31,582)	(24,338)	(23)
Allowances for possible loan losses (FX-adjusted)	(32,467)	(24,338)	(25)
Deposits from customers	360,069	351,722	(2)
Deposits from customers (FX-adjusted)	370,195	351,722	(5)
Retail deposits	341,065	320,907	(6)
Corporate deposits	29,130	30,815	6
Liabilities to credit institutions	22,725	50,669	123
Subordinated debt	8,691	8,933	3
Total shareholders' equity	29,382	38,078	30
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		336,650	
Stage 1 loans under IFRS 9/gross customer loans		85.7%	
Own coverage of Stage 1 loans under IFRS 9		0.7%	
Stage 2 loan volume under IFRS 9 (in HUF million)		29,307	
Stage 2 loans under IFRS 9/gross customer loans		7.5%	
Own coverage of Stage 2 loans under IFRS 9		11.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	35,916	26,836	(25)
Stage 3 loans under IFRS 9/gross customer loans	9.1%	6.8%	(2.3)
Own coverage of Stage 3 loans under IFRS 9		68.8%	
Provision for impairment on loan and placement losses/average gross loans	0.65%	(0.15%)	(0.81)
90+ days past due loan volume (in HUF million)	29,160	21,890	(24.9)
90+ days past due loans/gross customer loans	7.4%	5.6%	(1.8)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.0%	0.3%	0.3
ROE	0.2%	5.2%	5.1
Total income margin	3.32%	3.20%	(0.12)
Net interest margin	2.47%	2.29%	(0.18)
Cost/income ratio	82.7%	89.0%	6.3
Net loans to deposits (FX-adjusted)	100%	105%	4
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

- **OTP Banka Slovensko generated HUF 1.6 billion profit in 2019**
- **12M operating profit fell by 37% y-o-y, as a result of 2% lower income and 5% higher operating expenses**
- **The performing (Stage 1+2) loan volumes did not change substantially in y-o-y comparison**

* P&L lines and performance indicators are adjusted for the banking tax, Deposit Protection Fund contributions and payments into the Resolution Fund.

In 2019 **OTP Banka Slovensko** posted HUF 1.6 billion adjusted after tax profit, against the near-zero result of the base period. A significant part of the profit growth originated from favourable development in provisions: in 2019 the total provisions were in positive territory (HUF 0.2 billion), mainly owing to provision releases (+HUF 0.9 billion) booked in the third quarter, which in part stemmed from the revision of the IFRS 9 model parameters.

Total income in full-year 2019 declined by 2%. Within that, net interest income dropped by 6%, while performing (Stage 1+2) loan volumes did not change substantially in comparison with the base period. In 2019, net interest margin contracted by 18 bps to 2.29%.

Twelve-month operating expenses rose by 5% y-o-y (3% in local currency), reflecting higher personnel expenses and depreciation.

During 2019, net fees and commissions expanded by 10%, owing to a year-over-year increase in brokerage fees, largely because of a rise in investment fund and insurance fees.

Within total provisions, the provision for impairment on loan and placement losses line showed improvement compared to 2018 figures. This stemmed mostly from the release of provisions in the third quarter, partly due to the revision of the IFRS 9 model parameters. The unfavorable changes in other risk costs are due to the fact that OTP Faktoring Ltd. (Hungary) raised capital in OTP Faktoring Slovensko (presented as part of the Slovakian operation), which thereafter raised capital in its affiliated companies. As these companies had negative equity before the capital increase, and are out of the scope of consolidation, an impairment was recognized in the other provisions line of the Slovakian operation in the fourth quarter.

DPD90+ loan volumes contracted by HUF 1 billion in 2019 (FX-adjusted, without sales and write-offs). During the year, HUF 6 billion problem loans were sold/written off. The ratio of Stage 3 loans amounted to 6.8% of the gross loan volume (–2.3 pps y-o-y). The own coverage of Stage 3 loans stood at 68.8% at the end of 4Q.

The volume of performing (Stage 1+2) loans was stagnant during the year.

FX-adjusted customer deposits dropped by 5% y-o-y. This brought the loan/deposit ratio to 105% by the end of 2019.

STAFF LEVEL AND OTHER INFORMATION

	31/12/2018				31/12/2019			
	Branches	**ATM**	**POS**	**Headcount (closing)**	**Branches**	**ATM**	**POS**	**Headcount (closing)**
OTP Core (Hungary)	**362**	**1,931**	**77,599**	**9,631**	**361**	**1,936**	**77,962**	**10,102**
DSK Group (Bulgaria)	345	911	8,464	4,838	440	1,140	12,915	6,186
OBH (Croatia)	144	480	10,360	2,397	136	480	10,856	2,251
OTP Bank Serbia	154	248	5,554	1,996	231	338	18,424	3,162
SKB Banka (Slovenia)					53	83	3,982	863
OTP Bank Romania	95	139	4,556	1,273	95	141	5,125	1,496
OTP Bank Ukraine (w/o employed agents)	87	149	351	2,313	88	166	331	2,399
OTP Bank Russia (w/o employed agents)	134	227	905	5,052	134	223	715	5,343
CKB Group (Montenegro)	28	103	4,572	419	48	128	6,908	681
OTP Bank Albania					37	76	0	424
Mobiasbanca (Moldova)					53	145	0	755
OTP Banka Slovensko (Slovakia)	62	151	232	690	58	157	159	671
Foreign subsidiaries, total	**1,049**	**2,408**	**34,994**	**18,977**	**1,373**	**3,077**	**59,415**	**24,230**
Other Hungarian and foreign subsidiaries				924				590
OTP Group (w/o employed agents)				**29,532**				**34,922**
OTP Bank Russia – employed agents				5,306				5,083
OTP Bank Ukraine – employed agents				760				663
OTP Group (aggregated)	**1,411**	**4,339**	**112,593**	**35,599**	**1,734**	**5,013**	**137,377**	**40,668**

Notes: the y-o-y changes in the headcount data presented in the table were influenced by the changes in the scope of companies comprising OTP Core, the Bulgarian, Croatian, Serbian, Montenegrin and Romanian operations and in the case of other Hungarian and foreign group members. For more details, see the individual section about OTP Core, and the Bulgarian, Croatian, Serbian and Romanian performances.

Definition of headcount number: closing, active FTE (full-time employee). The employee is considered as full-time employee in case his/her employment conditions regarding working hours are in line with a full time employment defined in the Labour Code in the reporting entity's country. Part-time employees are taken into account proportional to the full time working hours being effective in the reporting entity's country.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.
In accordance with the statutory requirements and the recommendation concerned, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the website of the BSE (www.bet.hu), on the information storage system operated by National Bank of Hungary (www.kozzetetelek.hu), and on the website of the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
The Recommendations contain both recommendations that are binding for all organisations and non-binding proposals. Organisations may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, organisations are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables organisations to take industry and company-specific requirements into account. Accordingly, even organisations derogating from the recommendations can comply with corporate governance requirements under certain circumstances. Concerning the proposals, organisations should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.
OTP Bank Plc. provided positive answers to all recommendations and suggestions.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.
The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.
OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act.
To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis.
Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures.
It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.
The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The independent internal audit organisation has unrestricted access to information, documents and data necessary for conducting investigations, and is kept informed of changes in group structure, risks, and priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent report in respect of the operation of risk management, internal control mechanisms and corporate governance functions, and in accordance with the Credit Institutions Act annually reports to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audit, as well as on the review of compliance with the IT and other technical requirements for audits.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.
Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management

system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the provision of data to the regulatory and supervisory bodies. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.

The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.

The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.

Act no. 100 of 2000 on Accounting (IFRS) provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet that rests on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.

Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint. The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company. There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company. No securities with special control rights have been issued by the Company.
The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights: The Company's ordinary shares confer one vote per share.
An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.
The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)–(8) and Section 61 (10)–(11)–(12), of the Capital Markets Act.
Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights. For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.
If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.
If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital

Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority). When making the decisions, shares embodying multiple voting rights shall represent one share.

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairman, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

The membership of the Board of Directors ceases to exist by

a) expiry of the mandate,

b) resignation,

c) recall,

d) death,

e) the occurrence of grounds for disqualification as regulated by law.

f) termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor (qualified majority).

  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- Except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;

- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairman of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;

- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making.
Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.
The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.
The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.
The Company has not made agreements in the meaning of points j) and k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.:

Description of owner	Total equity					
	1 January 2019			31 December 2019		
	Ownership share	Voting rights[1]	Quantity	Ownership share	Voting rights[1]	Quantity
Domestic institution/company	19.32%	19.47%	54,092,340	18.84%	18.86%	52,750,611
Foreign institution/company	60.01%	60.49%	168,017,080	77.01%	77.10%	215,635,699
Domestic individual	3.53%	3.56%	9,896,546	2.98%	2.98%	8,344,202
Foreign individual	0.10%	0.10%	278,348	0.13%	0.13%	356,377
Employees, senior officers	0.85%	0.86%	2,376,450	0.80%	0.80%	2,240,465
Treasury shares[2]	0.80%	0.00%	2,242,143	0.12%	0.00%	323,520
Government held owner	0.08%	0.08%	219,072	0.08%	0.08%	219,372
International Development Institutions	0.05%	0.05%	143,308	0.04%	0.04%	122,218
Other[3]	15.26%	15.39%	42,734,723	0.00%	0.00%	7,546
Total	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP (OTP Bank Employee Stock Ownership Plan Organization). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 December 2019 ESOP owned 2,963,204 OTP shares.
[3] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2019):

	1 January	31 March	30 June	30 September	31 December
OTP Bank	168,583	159,961	443,966	336,795	323,520
Subsidiaries	2,073,560	2,073,560	0	0	0
Total	**2,242,143**	**2,233,521**	**443,966**	**336,795**	**323,520**

Shareholders with over/around 5% stake as at 31 December 2019:

Name	Number of shares	Ownership[1]	Voting rights[1,2]
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.58%
KAFIJAT Ltd.	19,278,248	6.89%	6.89%
OPUS Securities S.A.	14,496,476	5.18%	5.18%
Groupama Group	14,335,745	5.12%	5.13%

[1] Rounded to two decimals.
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

Committees[4]

Members of the Board of Directors

Dr. Sándor Csányi – Chairman
Mr. Tamás Erdei – Deputy Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board

Mr. Tibor Tolnay – Chairman
Dr. Gábor József Horváth – Deputy Chairman
Mr. Olivier Péqueux
Dr. Márton Gellért Vági
Ms. Klára Bella
Mr. András Michnai

Members of the Audit Committee

Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Olivier Péqueux
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

[4] Personal changes can be found in the "Personal and organizational changes" chapter.

Personal and organizational changes

Mrs. Ágnes Rudas resigned from the membership of the Supervisory Board with effect from 12 April 2019.
The Annual General Meeting elected Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.
Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2019, the Annual General Meeting is elected Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/C) as the Bank's auditor from 1 May 2019 until 30 April 2020.
According to the decision of Board of Directors of OTP Bank Mr. Tamás Erdei, member of the Board of Directors, was elected as Deputy Chairman of the Board of Directors with effect from 12 April 2019.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.
In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.
OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.
The Board of Directors held 7, the Supervisory Board held 7 meetings, while the Audit Committee gathered 2 times in 2019.
In addition, resolutions were passed by the Board of Directors on 145, by the Supervisory Board on 68 and by the Audit Committee on 20 occasions by written vote.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.
When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.
With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.
It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5–11 members and a Supervisory Board comprising 5–9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 12 April, 2019.
The management of OTP Bank Plc. currently comprises 7 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

Environmental protection principles

OTP Group is committed to the protection of the environment and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its Environmental Regulation. The Regulation both ensures legal compliance, and aims to consider environmental criteria and integrate them into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organisation. The Regulation also sets out the rules on implementing the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation, and have not been subject to fines in 2019 either. In CDP's Climate Change questionnaire, OTP Bank achieved a rating of C.

Environmental protection in relation to the provision of banking services

In its lending, our banking group expects – and always verifies – compliance with the applicable environmental regulations. At the time of the internal approval by the bank of the financing of a project and before the first disbursement, the availability of the required permits and authorisations and compliance with their provisions is always verified by one or more external consultants (legal and/or technical experts); the Bank subsequently ensures compliance by obtaining regular declarations from the customer and conducting its own monitoring. Any violations of undertakings/requirements are sanctioned in the credit limit agreements. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the credit ratings of large corporate clients. With regards to project financing, our group's lending policy gives a high priority to financing projects aimed at the utilisation of renewable energy sources. In 2019, we financed the construction of 2 solar plants, and provided refinancing for a wind farm. Our decisions on the financing of renewables projects are made at the group level; all projects implemented in 2019 are located in Hungary. Renewables projects represented approximately 50% of our 2019 project financing. Within our project financing, we also give special attention and priority to office building projects with sustainability/environmental qualifications. OTP Bank leads the consortium offering products of the Hungarian Development Bank (MFB), including both EU-refinanced and those of MFB's own origination, at the MFB Points set up in our branches. Environmental protection has been a priority for our available credit lines since 2017. Households and businesses can access preferential terms under these loan products to implement energy projects (improving energy efficiency and increasing the reliance on renewables).

The SME Energy Loan developed for businesses (GINOP-8.4.1/B-16) was especially successful; the only reason we stopped selling it was because the credit line was depleted. By the end of 2019, we had disbursed HUF 4.7 billion of this loan product. We disbursed HUF 14.6 billion to retail customers by 2019; that product will be available in 2020 as well.

Our efforts to reduce the direct environmental impact of the banking group's operations are centered around improving its energy efficiency and reducing its paper usage. The banking group analyses and manages the environmental risks associated with its operations within its operational risk management process. Potential risks are identified in the course of the annual process-based self-assessment.

Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects; we also continue to expand our use of LED technology. At OTP Bank, the renovation of branches includes the refurbishment of heat centres and the use of LED lighting at all locations. As part of the renovation process, we are also replacing air conditioning units, ensuring that the new units use environmentally friendly coolants. In 2019, we refurbished 16 branches of our parent bank. At several members of our banking group, computers are switched off centrally after extended periods of being idle; we also remind our employees of the importance of switching them off.

We are intensifying our reliance on renewable energy, taking financial considerations into account. Whenever a branch of the parent bank is renovated, we always examine the possibility of installing solar panels and heat pumps. In 2019, we installed solar panels at one branch, and heat pumps at two branches. As a result, our systems generated a total of 2051 GJ energy from solar power. The central archives facility owned by Monicomp Ltd. has been using geothermal energy for several years. The solar panels of OTP banka Hrvatska in Croatia generated a total of 144 GJ of solar power in 2019.

The number of business trips and the size of the vehicle fleet is determined by the changes in business activities; we have made it standard practice to find cost-effective solutions for trips. As before, OTP Bank's vehicle policy stipulated carbon dioxide limits in 2019 as well; all of our available car categories now also include environmentally friendly models. By the end of 2019, OTP Bank's fleet included 2 electric cars and 5 hybrid cars. Both the number of vehicles and the total distance travelled increased by 4% during the year, due company cars having been made available to a larger segment of our workforce once more, as a type of employment benefit.

It will be possible to cut down on the amount of business travel by using video conferencing, an option that we are using more and more each year. We have continued to expand the number of video conferencing rooms available to us in 2019. Our existing bicycle storage facilities continued to be available to both customers and employees in 2019. Among our new subsidiaries, Mobiasbanca offers bicycle storage facilities.

We present the energy consumption figures of OTP Bank. The bank's overall energy consumption decreased by 5% compared to the previous year. However, due to our workforce expansion, this represents an 11% reduction in per-capita energy consumption.

Energy consumption quantities:

OTP Bank	2019
Total energy consumption* (GJ)	251,155
Per-capita energy consumption** (GJ)	28.20

* Energy consumption data are derived from readings; the measured consumption quantities are converted to energy using the local average calorific values.

** The denominator for the per-capita figure is the average statistical headcount.

Efforts to reduce paper use

OTP Group has been making a consistent effort to reduce paper use and printing. In 2019, we set ourselves the goal of maintaining our earlier achievements and to further expand the use of recycled paper at OTP Bank. We managed to deliver on this commitment in part; our use of office paper rose by 2%, whereas our total paper use increased by 4% year-on-year. Nevertheless, our percentage of recycled paper to total office paper usage increased to 7%, and we plan to increase that figure even further in the future. OTP Bank has been using recycled paper for its account statements and marketing publications for several years. Having significantly cut its paper use in the previous year, our subsidiary in Croatia achieved an additional reduction of 5% in its paper consumption in 2019, and continues to use recycled paper almost exclusively.

Paper usage:

OTP Bank	2019
Total amount of paper used (tons) (office, packaging, indirect)	764
Per capita paper use* (kg)	86

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest reasonably possible time. We explicitly aim to use furniture until the end of its lifecycle, reusing it multiple times and ensuring the compatibility of replacements. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organisations in need.

In order to cut the use of plastics in its archiving practices, our parent bank replaced ethylene bags and plastic wallets with paper products in 2019. We plan to roll out the use of recycled plastic stamps in 2020. In 2019, we installed filtered water dispensers in the head office buildings; as a result, the volume of selectively collected PET bottles fell by approximately 20%. Since 2019, OTP Bank has been using only ECO Label personal hygiene products.

Our subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste.

Waste collection remained unchanged in most respects in 2019. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the relevant laws and regulations. The selective collection of non-confidential paper waste, PET bottles and – in a number of locations – glass is available in the head office buildings of OTP Bank.

Our Serbian subsidiary collects used toner cartridges and paper waste selectively in its branches and head office buildings.

Our Romanian subsidiary collects all paper, metal, glass and plastic selectively. Our Ukrainian subsidiary operates selective paper collection at its head office building.

Our Croatian subsidiary has collected waste selectively for years, whereas the Slovak subsidiary does so at locations facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna.

Attitude shaping

Several members of our Banking Group have a tradition of raising awareness and taking joint action to protect environmental and natural resources.

- In 2019, OTP Bank continued to support the Hungarian Hikers' Association's efforts to popularise hiking.

* The denominator is the average statistical headcount.

- The head office of DSK Bank has been active for years in the national PET bottle cap collection scheme; the caps are used for producing wheelchairs. In 2019, 100 volunteers from DSK Bank and Expressbank planted 1000 trees to contribute towards cleaner air in Budapest.
- Volunteers from our Romanian subsidiary participated in the "Let's Do It, Romania!" cleanup day.
- In 2019, CKB of Montenegro has once again participated in nationwide forestation and environmental protection campaigns.

NON-FINANCIAL STATEMENT OTP BANK PLC. (SEPARATE)

The social, environmental and wider economic performance and impacts of OTP Group are reported primarily in its Sustainability Report. The Sustainability Report for 2019 is a grouplevel report that meets the GRI (Global Reporting Initiative) Standard, and is certified by an independent third party. It is available in a digital version on OTP Bank's website (www.otpfenntarthatosag.hu/hu/jelentesek).
The information in this chapter is provided for the purpose of compliance with the relevant provisions in the Accounting Act, while also adhering to the principle of keeping the duplication of information to the minimum. Some of the information concerning environmental protection is provided in the chapter on Environmental Policy and Environmental Protection Measures.
Our products and services are aimed at helping our customers meet their needs and achieve their financial goals. Our bank is committed to ethical business conduct in all respects; our principles are set out in our Code of Ethics, which is binding for all our employees and agents. Our operations and services have significant social and environmental impacts; our objective is to manage risks responsibly while taking advantage of opportunities and delivering positive outcomes.

Providing responsible financial services and managing credit risk

Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group remains a high priority. Our Compliance Policy formulates our principles and guidelines for the fair treatment of customers, as well as our compliance with consumer protection requirements. We follow the principles of ethical product design when designing our products, and our New Product Policy requires – among other things – that we investigate any potential risks affecting consumers.
We fulfil our role as financial intermediary in a way that guarantees the security of our customers' savings through the entire process. Our rules ensure that we comply with the responsible lending standards concerning the prevention of excessive debt, the provision of fair, clear, comprehensive and easily visible information, and the recommendation of appropriate products.
In addition to all of the above, our debtor protection programmes remained in place in 2019 as well, helping customers facing payment difficulties.
We invest and lend the money deposited with us, ensuring that it will not serve illegal purposes, or those contrary to the values of society.
OTP Bank will not finance

- customers whose financing is forbidden by international accords, EU acts or national laws;
- those whose activity is likely to violate public morals or social value systems, or is connected to crime;
- those who are connected, directly or indirectly, to criminal activities or to the

deliberate violation or evasion of legal regulations;
- transactions classified as prohibited business sectors (e.g. illegal arms trade, prohibited gambling, drug trade, or any other illegal activity);
- transactions that fail to meet environmental standards.

We ensure adherence to our principles, and maintain this balance through:
- our strict Risk Management Policy,
- our annually revised Lending Policy,
- our continuously developed credit approval system.

Our Lending Policy clearly defines the industries, business lines and activities in which we pursue active business operations, as well as the areas where we do not wish to assume risks.

We offer our customers banking options to suit their individual needs, and provide our services at the highest standard of quality, while continuing to improve and innovate.

Our objective is to provide equal access for persons living with disability, through services adapted to their special needs. We are working towards accomplishing this goal, in line with OTP Bank's Accessibility Strategy. Accessibility is integrated into our website, which supports one-handed use, and provides accessibility options including text-to-speech software and video content transcripts. In 2019, physical accessibility was provided in all our branches but one. Tactile guide strips are available in 41% of our branches. For several years now, our customers have been able to request special-needs services at the queue management machine, with physical push buttons and tactile strips also assisting them in using the device. We introduced KONTAKT Interpreter Services at 120 additional branches in 2019; this is a service allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available (in 109 branches), while 25 of our high-traffic branches have employees who can serve customers using sign language. We have made text-to-speech software available on 600 of our ATMs.

OTP Bank's stated objective is to serve its customers faultlessly. In order to improve the satisfaction of our customers, we are also continually improving our complaint management practices. Our Complaint Management Regulation and Complaint Management Policy are available to view in our branches, as well as on our website.

Complaints in 2019 concerned mostly external fraud, cash withdrawal at ATMs, fees and charges. Business lines mostly received complaints regarding retail bank accounts and electronic services, as well as consumer loans.

Customer complaint data:

OTP Bank*	2019
Number of warranted complaints	125,242
Percentage of warranted complaints	66%
Compensation paid (HUF million)	144

We use TRI*M methodology to measure the satisfaction of our retail customers.

OTP Bank's client retention power stood at 74 points in 2019, which was somewhat below its level in the preceding six-month period, but is still a good result, comparable to the average of other banks in Central Europe (76 points).

Security and data protection

Security is a top concern for us. The principles and main guidelines concerning security at the bank are set forth in the Security Policy, which is approved by the Board of Directors. The Policy covers all aspects of security, including IT and cyber security, which have become increasingly

* Including OTP Building Society and OTP Mortgage Bank data.

important. The processing and protection of personal data is covered by the Compliance Policy, which is also approved by the Board of Directors. Both Policies prescribe the regular evaluation of risks, and the need for maintaining and enhancing awareness. The Deputy CEO responsible for the IT Division is in charge of the bank's data processing and the protection of customers' personal data.

We prioritise the use of increasingly advanced security systems and raising awareness among our employees and customers. In 2019, we provided information about phishing attacks to our customers on our website and through the SmartBank application; we also published awareness-raising articles in the media, discussing the topics of information security and card security. We joined the European Cyber Security Month by running an in-house cyber and information security campaign and scheduling our mandatory e-learning courses about security awareness, anti-money laundering and terrorism financing, and general bank security for this period; all employees must complete these courses and pass an examination on them every year. Our sales partners have also received training. We have completed the preparations for our Security Operations Center (SOC) in 2019, and will launch it in 2020.

Fight against corruption and against the practice of bribery

The Code of Ethics and the Anti-Corruption Policy of OTP Bank contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (www.otpbank.hu/portal/en/EthicalDeclaration, www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf, www.otpbank.hu/static/portal/sw/file/OTP_Anti_Corruption_Policy.pdf). As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes".

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible.

The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 14 reports were received in 2019, six of them was reclassified as complaints and two case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Any requests from third parties affecting human rights are treated by the Bank as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Management Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

Citizenship

OTP Bank is one of the most generous charitable donors in Hungary. In 2019, we gave close to

HUF 3.5 billion in charitable donations. We aim to provide genuine and effective help by supporting programmes and causes that serve the interests of society as a whole. In order to efficiently and productively use available resources, we cooperate with a number of local non-governmental organisations in addition to our own foundations, concentrating our donated funds and monitoring their usage and the results achieved. We continue to focus our efforts primarily on:

- developing financial literacy, attitudeshaping (52%);
- sponsoring culture and the arts: creating and preserving values;
- empowerment: helping the disadvantaged and those in need; and
- sports.

The Humanitas Social Foundation supports vulnerable communities and individuals with a focus on healthcare and education; donation recipients are selected through an application process.

The OTP Fáy András Foundation provides financial and economic education services, a key element of which is operating the OK Educational Centre. The Centre offers free financial and economic education and career programmes to between 20,000 to 25,000 primary and secondary school students each year. Our centres in Budapest and Nyíregyháza use innovative teaching techniques and methodologies to provide knowledge sharing through compelling experiences. The Centre also plays an important role in raising financial awareness at festivals, exhibitions and road shows. Making the Centre available to more and more people is a key priority: in addition to running a club for educators and working with ELTE University to provide advanced teacher training, we have also produced training materials for adults and developed new digital content, including the BanKing educational card game. Over recent years, our courses and methodologies have received numerous awards and certifications; in 2019, we were granted the right to become a partner organisation to OECD – INFE (International Network on Financial Education).

In addition to our charitable donations, we also believe in the importance of shaping social attitudes; in 2019, we highlighted the problems of overconsumption. As part of our campaign, we have supplemented our awareness-raising activities with publishing the results of our research into the characteristics of overconsumption on our website, with a psychologist offering expert advice on how to avoid unnecessary spending.

In 2019, our OTP Local Value (OTP Helyi Érték) programme received the Corporate Volunteering Programme of the Year award from Volunteering Hungary – Centre of Social Innovation (ÖKA). In addition to the programmes implemented with application funding, we have also organised volunteering events, with a over 2000 employees taking part in volunteer programmes.

Responsible employment

Our employees play a key role in OTP Bank's success. Ethical conduct and compliance with the law remain core principles in our human resource management as well. OTP Bank analyses and manages the risks pertaining to employment within its operational risk management process. The interests of our employees are represented by their trade union, with a Collective Agreement setting out the rights and obligations of every employee.

OTP Bank's employees:

31 December 2019	Total	Men	Women
Employees*, total	9,318	2,975	6,343
Distribution by gender	100%	31.9%	68.1%
Turnover rate**	13.0%	13.2%	12.8%

* Definition: closing statistical number of active employees, i.e. exluding employees on permanent leave. Part-time employees are counted as one employee.

** Compared to the end-of-year headcount; includes termination of employment both by employee and by employer, as well as retirement.

In our Code of Ethics, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executive officers and employees, including the prohibition of discrimination and harassment. We consistently employ the principle of "equal pay for equal work", including providing equal pay to men and women for the same position and performance. Within the objective limitations of specific job descriptions, we allow for flexible working hours and part-time employment options. Home office arrangements are available at all our central departments. We encourage healthy lifestyle choices, offering a complex health insurance package, and subsidizing recreation and sports activities.
Adopted in 2019, the core objectives of our human resource strategy are to improve employee experience and commitment. Our stated priorities are leadership development, talent and succession planning and improved performance management, as well as supporting a culture of feedback. We believe it is vital to have a fair and uniform assessment system focusing on core competencies, and to provide career opportunities based on fully transparent principles and requirements.
The growth and development of our employees is a priority for us. All our employees attend professional training courses and competency development, based on their performance assessments; we also operate a talent programme.
We regularly measure employee satisfaction. In 2019, we performed a joint assessment of satisfaction and loyalty, in order to evaluate our bank's ability to retain its employees. Our retention index was calculated as 64 points , which is within the range considered optimal.

Short description of the business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its branch network and its steadily developing digital channels. The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.
In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

Non-financial performance indicators

- Internal audit: 196 closed investigations, 1,213 proposals, 1,213 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 85 yes, 0 no;
- Compliance: 10 closed consumer protection related investigations, 3,374 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 530 million, prevented damages: HUF 640.9 million; reported criminal charges: 233; the ratio of bank card abuses 0.0073% which is better than the European average (OTP Bank 0.03025%, European average 0.0416%);
- Ethics issues: 14 ethics reports, establishing ethics offense in 2 case.

LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000);
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400);
- Reviewing the internal processes and compliance with laws and regulations.

Footnotes to the table 'consolidated net profit breakdown by subsidiaries (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) Aggregated adjusted after tax profit of OTP Core, Corporate Centre and foreign banks.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017 (from 1Q 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from 1Q 2019. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP Bank under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd., Merkantil Car Ltd., Merkantil Leasing Ltd., OTP Fund Management Ltd., OTP Real Estate Fund Management Ltd., OTP Life Annuity Ltd.; foreigners: banks, leasing companies, factoring companies.

(4) The result and balance sheet of OTP Factoring Bulgaria EAD is included. From 1Q 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation. From 1Q 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included.

(5) Splitska banka and its subsidiaries were consolidated into OBH's results from 2Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing d.d. and SB Leasing d.o.o. was included.

(6) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Vojvodjanska banka has been consolidated from 4Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Lizing d.o.o and OTP Services d.o.o. was included. The balance sheet of the newly acquired OTP banka Srbija was included in 3Q 2019, its P&L from 4Q 2019.

(7) From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included. From 1Q 2019 the statement of recognised

income and balance sheet of OTP Leasing Romania IFN S.A. was included.

(8) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of OTP Factoring Ukraine LLC was also aggregated.

(9) From 1Q 2015 to 4Q 2017 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(10) Including the financial performance of OTP Factoring Montenegro d.o.o. (merged into CKB Bank in 4Q 2018). From 3Q 2019 the statement of recognised income and balance sheet of Podgoricka banka was included.

(11) From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund. Including the financial performance of OTP Faktoring Slovensko s.r.o.

(12) After tax profit of Merkantil Bank without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries. Merkantil Car was merged into Merkantil Bank in 3Q 2018. For the 2018 base periods the aggregated after tax profit of Merkantil Bank and Car was presented.

(13) Companies comprising Foreign Leasing in previous periods (OTP Leasing Romania IFN S.A. [Romania], OTP Leasing d.d. and SB Leasing d.o.o. [Croatia], DSK Leasing AD [Bulgaria], OTP Lizing d.o.o, OTP Services d.o. [Serbia]) were presented as part of the operations in the given countries starting from 1Q 2019.

(14) LLC AMC OTP Capital, OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(15) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia), OTP Solution Fund (Ukraine).

(16) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(17) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries.

Calculation of the adjusted lines of IFRS profit and loss statements, as well as the adjusted balance sheet lines presented in the business report, and the methodology for calculating the FX-adjusted volume changes

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section.

Adjustments affecting the income statement:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Recognised Income. The following adjustment items emerged in the period under review and the previous year: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the initial NPV gain on the monetary policy interest rate swap (MIRS) deals, and the one-off impact of regulatory changes related to FX consumer contracts in Serbia.

Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. Within banking taxes, the special tax booked by the Romanian subsidiary was also included in 4Q 2019.

- Until 4Q 2017 other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of Provision for impairment on loan and placement losses line in the income statement. Starting from 1Q 2018 this income from the release of pre-acquisition provisions was presented amongst the Provision for impairment on loan and placement losses line both in the accounting and adjusted P&L structure.
- In 4Q 2019 the following items have been moved – even retroactively for the 2018 base periods – from the Other operating expenses line among the Net interest income after loss allowance, impairment and provisions line: Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost, Provision for commitments and guarantees given, Release of impairment of assets subject to operating lease and of investment properties. In the adjusted P&L structure these items are presented amongst the Other provisions (adj.) line (through the Structural correction between Provision for loan losses and Other provisions adjustment line).
- Other non-interest income is shown together with Gains and losses on real estate transactions, Net insurance result (appearing in the accounting P&L structure from 3Q 2017), Gains and losses on derivative instruments, and Gains and losses on non-trading loans mandatorily at fair value through profit or loss lines, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. In the addition to this, OTP Bank has changed the way how private equity funds managed by PortfoLion are recorded. As a result of this, as opposed to the previous method of recording the funds at book value (initial book value less impairments), starting from 3Q 2019 the funds are evaluated based on their net asset value. The change in the carrying value was reclassified to the Net other non-interest result (adj.) without one-offs line in the adjusted P&L structure. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers (except for movie subsidies and cash transfers to public benefit organisations, whereas from 1Q 2019 certain part of cash transfers to public benefit organizations was presented amongst net fees and commissions), Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.

- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions booked from 1Q 2017 are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the financial transaction tax and/or Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intragroup swap deals – earlier booked partly within the net interest income,

but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line starting from 1Q 2016.

- Due to the introduction of IFRS 16 from 2019, certain items previously presented on the Other non-interest expenses line (rental fees) were moved to the interest expenses and depreciation lines in the accounting income statement. These items were shifted back to the Other non-interest expenses line in the adjusted P&L structure.
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios etc.) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated). Adjustment items include received dividends and net cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX-adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier.

Adjustments affecting the balance sheet (as well):

- On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in this Summary incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. Therefore, new adjustment lines have been inserted in the tables reconciling the accounting income statement and balance sheet lines with the adjusted ones.
- Starting from 3Q 2017, in the adjusted balance sheets presented in the analytical section of the report, the total amount of accrued interest receivables related to DPD90+ loans (until 4Q 2018) and Stage 3 loans under IFRS 9 (from 1Q 2019) were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

Adjustments on the Consolidated Statement of Profit or Loss (IFRS):

	2019 HUF million	2018 HUF million
Net interest income	**697,049**	**613,385**
(-) Revaluation result of FX provisions	30	(44)
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	76	(116)
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	1,583	795
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	20,685
(-) Reclassification due to the introduction of IFRS 16	(1,652)	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(1,535)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	10,733	11,338
Net interest income (adjusted)	**706,298**	**599,832**
Net fees and commissions	**340,445**	**274,136**
(+) Financial Transaction Tax	(61,920)	(56,958)
(-) Effect of acquisitions	(42)	(14)
(+) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(30)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3,906	3,539
Net fees and commissions (adjusted)	**282,504**	**220,731**
Foreign exchange result	**39,470**	**33,893**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	(5,166)	3,153
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(477)	(2,598)
(-) Effect of acquisitions	1	34
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	66	265
Foreign exchange result (adjusted)	**45,177**	**33,568**
Gain/loss on securities, net	**11,611**	**1,345**
(-) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
Gain/loss on securities, net (adjusted) with one-offs	**9,697**	**1,345**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net [adj.] at OTP Core)	(2,675)	(1,117)
Gain/loss on securities, net (adjusted) without one-offs	**12,373**	**2,461**
Result of discontinued operation	**(4,668)**	**(586)**
(-) Effect of acquisitions	(6,037)	
Result of discontinued operation (adjusted)	**1,369**	**(586)**
Gains and losses on real estate transactions	**8,231**	**1,890**
Result of discontinued operation (adj.)	**1,369**	**(586)**
(+) Other non-interest income	**102,015**	**23,309**
(+) Gains and losses on derivative instruments	**1,048**	**6,459**
(+) Net insurance result	**849**	**673**
(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	**1,282**	**597**
(-) Received cash transfers	174	575
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(+) Other other non-interest expenses	(6,778)	(6,510)
(+) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(-) Investment impairment in relation to the sale of Express Life Bulgaria (presented on the Goodwill/investment impairment charges adjustment line on consolidated level)	(163)	
(-) Effect of acquisitions	79,538	0
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	553	2,482
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	(26)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(277)	(375)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	0
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	(483)	(630)

Adjustments on the Consolidated Statement of Profit or Loss (IFRS) – continued	2019 HUF million	2018 HUF million
(+) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,072)	602
Net other non-interest result (adjusted) with one-offs	**31,376**	**25,134**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result [adj.] at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adjusted) without one-offs	**31,376**	**25,134**
Provision for impairment on loan and placement losses	**(49,120)**	**(22,616)**
(+) Loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	**9**	**607**
(+) Provision for commitments and guarantees given	**(7,995)**	**(6,481)**
(+) Impairment of assets subject to operating lease and of investment properties	**280**	**(326)**
(-) Revaluation result of FX provisions	5,176	(3,088)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	263	(37)
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	(19,868)	(33)
(-) One-off impact of regulatory changes related to FX consumer contracts in Serbia	(2,127)	
(-) Structural correction between Provision for loan losses and Other provisions	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(46)	(3,164)
Provision for impairment on loan and placement losses (adjusted)	**(29,474)**	**(19,283)**
Dividend income	**7,955**	**5,733**
(+) Received cash transfers	174	575
(+) Paid cash transfers	(13,195)	(9,465)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	5,710	5,111
(-) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3	3
After tax dividends and net cash transfers	**505**	**457**
Depreciation and goodwill impairment	**(81,935)**	**(56,100)**
(-) Goodwill impairment charges	(4,887)	(5,962)
(-) Effect of acquisitions	(7,881)	(3,266)
(-) Reclassification due to the introduction of IFRS 16	(14,280)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,495)	(1,337)
Depreciation (adjusted)	**(56,383)**	**(48,210)**
Personnel expenses	**(276,754)**	**(244,600)**
(-) Effect of acquisitions	(3,777)	(1,594)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(7,024)	(6,441)
Personnel expenses (adjusted)	**(280,002)**	**(249,447)**
Income taxes	**(49,902)**	**(34,000)**
(-) Corporate tax impact of goodwill/investment impairment charges	(3,378)	1,233
(-) Corporate tax impact of the special tax on financial institutions	1,623	1,562
(+) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(-) Corporate tax impact of the effect of acquisitions	(5,713)	573
(-) Corporate tax impact of the one-off impact of regulatory changes related to FX consumer contracts in Serbia	483	0
(-) Corporate tax impact of the initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	(1,862)
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 (corporate tax impact)	146	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(56)	163
Corporate income tax (adjusted)	**(46,921)**	**(37,400)**
Other operating expense	**(44,758)**	**(19,173)**
(-) Other costs and expenses	(9,172)	(7,080)
(-) Other non-interest expenses	(19,973)	(15,975)
(-) Effect of acquisitions	(7,575)	1,606
(-) Revaluation result of FX provisions	(40)	(21)
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	26
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	14	411
(-) Impact of fines imposed by the Hungarian Competition Authority	0	2,000

Adjustments on the Consolidated Statement of Profit or Loss (IFRS) – continued	2019 HUF million	2018 HUF million
(–) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	483	630
(–) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	1,420	
(+) Structural correction between Provision for loan losses and Other provisions	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(12)	85
Other provisions (adjusted)	**(17,633)**	**(6,885)**

Other administrative expenses	**(282,528)**	**(259,823)**
(+) Other costs and expenses	(9,172)	(7,080)
(+) Other non-interest expenses	(19,973)	(15,975)
(–) Paid cash transfers	(13,195)	(9,465)
(+) Film subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(–) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(–) Other other non-interest expenses	(6,778)	(6,510)
(–) Special tax on financial institutions (recognised as other administrative expenses)	(17,792)	(16,848)
(–) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(–) Financial Transaction Tax	(61,920)	(56,958)
(–) Impact of fines imposed by the Hungarian Competition Authority	0	(1,435)
(–) Effect of acquisitions	(10,963)	(4,945)
(+) Reclassification due to the introduction of IFRS 16	(15,933)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(5,003)	(5,052)
Other non-interest expenses (adjusted)	**(231,298)**	**(199,161)**

Adjustments of Consolidated IFRS Balance Sheet Lines:

	2019 HUF million	2018 HUF million
Cash, amounts due from Banks and balances with the National Banks	**1,784,378**	**1,547,272**
(+) Allocation of Assets classified as held for sale among balance sheet lines	57,586	
Cash, amounts due from Banks and balances with the National Banks (adjusted)	**1,841,963**	**1,547,272**
Placements with other banks, net of allowance for placement losses	**410,079**	**420,606**
(+) Allocation of Assets classified as held for sale among balance sheet lines	354	
Placements with other banks, net of allowance for placement losses (adjusted)	**410,433**	**420,606**
Securities at fair value through other comprehensive income	**2,426,779**	**1,883,849**
(+) Allocation of Assets classified as held for sale among balance sheet lines	759	
Securities at fair value through other comprehensive income (adjusted)	**2,427,537**	**1,883,849**
Gross customer loans (incl. accrued interest receivables related to loans)	**12,585,969**	**8,751,955**
(-) Accrued interest receivables related to DPD90+/Stage 3 loans	35,450	32,613
(+) Allocation of Assets classified as held for sale among balance sheet lines	391,490	
Gross customer loans (incl. accrued interest receivables related to loans) (adjusted)	**12,942,009**	**8,719,342**
Allowances for loan losses	**(706,907)**	**(685,364)**
(-) Allocated provision on accrued interest receivables related to DPD90+/Stage 3 loans	(35,450)	(32,613)
(+) Allocation of Assets classified as held for sale among balance sheet lines	(23,033)	
Allowances for loan losses (adjusted)	**(694,490)**	**(652,751)**
Securities at amortized costs	**1,968,072**	**1,740,520**
(+) Allocation of Assets classified as held for sale among balance sheet lines	27,555	
Securities at amortized costs (adjusted)	**1,995,627**	**1,740,520**
Tangible and intangible assets, net	**595,128**	**420,484**
(+) Allocation of Assets classified as held for sale among balance sheet lines	10,545	
Tangible and intangible assets, net (adjusted)	**605,673**	**420,484**
Other assets	**785,456**	**312,018**
(+) Allocation of Assets classified as held for sale among balance sheet lines	(465,255)	
Other assets (adjusted)	**320,201**	**312,018**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	**844,261**	**392,706**
(+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines	1,898	
Amounts due to banks, the National Governments, deposits from the National Banks and other banks , and Financial liabilities designated at fair value through profit or loss (adjusted)	**846,158**	**392,706**
Deposits from customers	**15,171,308**	**11,285,085**
(+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines	351,346	
Deposits from customers (adjusted)	**15,522,654**	**11,285,085**
Other liabilities	**1,171,805**	**586,445**
(+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines	(353,244)	
Other liabilities (adjusted)	**818,561**	**586,445**

Statement of Profit or Loss of OTP Bank Plc., according to IFRS standards as adopted by the European Union (separate)*:

	2019 HUF million	2018 HUF million	Change %
Interest income accounted for using the effective interest rate method	239,395	214,821	11
Income similar to interest income accounted for not using the effective interest rate method	83,111	75,912	9
Interest incomes	322,506	290,733	11
Interest expenses	(119,384)	(83,778)	43
NET INTEREST INCOME	**203,122**	**206,955**	**(2)**
Loss allowance on loans, placements and financial lease receivables	(39,121)	(9,978)	292
NET INTEREST INCOME AFTER RISK COST	**164,001**	**196,977**	**(17)**
Income from fees and commissions	238,995	212,556	12
Expense from fees and commissions	(35,591)	(34,339)	4
Net profit from fees and commissions	**203,404**	**178,217**	**14**
Foreign exchange gains, net	13,247	9,510	39
Gains on securities, net	8,188	1,960	318
Gains on financial assets/liabilities measured at fair value through profit or loss	1,890	625	202
Gains on deivative instruments, net	4,715	3,706	27
Dividend income	78,887	68,481	15
Other operating income	7,505	5,179	45
Other operating expense	26,515	(2,867)	–
NET OPERATING GAIN	**140,947**	**86,594**	**63**
Personnel expenses	(115,035)	(104,819)	10
Depreciation and amortization	(29,925)	(21,232)	41
Other administrative expenses	(160,198)	(151,104)	6
OTHER ADMINISTRATIVE EXPENSES	**(305,158)**	**(277,155)**	**10**
PROFIT BEFORE INCOME TAX	**203,194**	**184,633**	**10**
Income tax expense	(9,840)	(11,191)	(12)
NET PROFIT FOR THE YEAR	**193,354**	**173,442**	**11**

* The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

Statement of Financial Position of OTP Bank Plc., according to IFRS standards as adopted by the European Union (separate)*:

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	360,855	(20)
Placements with other banks, net of allowance for placement losses	1,560,142	1,074,840	45
Repo receivables	45,539	14,139	222
Financial assets at fair value through profit or loss	172,229	155,042	11
Financial assets at fair value through other comprehensive income	1,485,977	1,451,905	2
Loans at amortised cost	3,285,338	2,571,979	28
Loans mandatorily measured at fair value through profit or loss	29,731	32,745	(9)
Investments in subsidiaries	1,542,538	1,177,573	31
Securities at amortised cost	1,447,224	1,431,789	1
Property and equipment	77,754	70,442	10
Intangible assets	53,282	39,883	34
Right of use assets	13,607	0	
Investments properties	2,381	2,333	2
Deferred tax assets	0	1,241	(100)
Derivative financial assets designated as hedge accounting relationships	16,677	12,221	36
Other assets	116,699	109,201	7
TOTAL ASSETS	**10,138,804**	**8,506,188**	**19**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	738,054	458,182	61
Repo liabilities	462,621	279,854	65
Deposits from customers	6,573,550	5,741,498	14
Leasing liabilities	13,660	0	
Liabilities from issued securities	43,284	46,694	(7)
Financial liabilities at fair value through profit or loss	28,861	32,231	(10)
Derivative financial liabilities designated as held for trading	83,088	82,838	0
Derivative financial liabilities designated as hedge accounting relationships	10,023	6,925	45
Deferred tax liabilities	5,875	0	
Other liabilities	**246,676**	**236,570**	**4**
Subordinated bonds and loans	279,394	110,454	153
TOTAL LIABILITIES	**8,485,086**	**6,995,246**	**21**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,628,354	1,484,906	10
Treasury shares	(2,636)	(1,964)	34
TOTAL SHAREHOLDERS' EQUITY	**1,653,718**	**1,510,942**	**9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,138,804**	**8,506,188**	**19**

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Statement of Profit or Loss of OTP Bank Plc., according to IFRS standards as adopted by the European Union (consolidated)*:

	2019 HUF million	2018 HUF million	Change %
CONTINUING OPERATIONS			
Interest income accounted for using the effective interest rate method	777,502	647,650	20
Income similar to interest income accounted for not using the effective interest rate method	116,642	98,379	19
Interest incomes	894,144	746,029	20
Interest expenses	(197,095)	(132,644)	49
NET INTEREST INCOME	**697,049**	**613,385**	**14**
Loss allowance on loans, placements and financial lease receivables	(49,120)	(22,616)	117
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	9	607	(99)
Provision for commitments and guarantees given	(7,995)	(6,481)	23
Release of impairment of assets subject to operating lease and of investment properties	280	(326)	(186)
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS	**640,223**	**584,569**	**10**
Income from fees and commissions	413,348	333,082	24
Expense from fees and commissions	(72,903)	(58,946)	24
NET PROFIT FROM FEES AND COMMISSIONS	**340,445**	**274,136**	**24**
Foreign exchange gains, net	40,518	40,352	0
Foreign exchange result	39,470	33,893	16
Gains and losses on derivative instruments	1,048	6,459	(84)
Gains on securities, net	11,611	1,345	763
Gains on financial assets/liabilities measured at fair value through profit or loss	1,282	597	115
Dividend income	7,955	5,733	39
Other operating income	111,093	25,872	329
Gains and losses on real estate transactions	8,231	1,890	335
Other non-interest income	102,015	23,309	338
Net insurance result	849	673	26
Other operating expense	(44,758)	(19,173)	133
NET OPERATING GAIN	**127,701**	**54,726**	**133**
Personnel expenses	(276,754)	(244,600)	13
Depreciation and amortization	(77,048)	(50,138)	54
Goodwill impairment	(4,887)	(5,962)	(18)
Other administrative expenses	(282,528)	(259,823)	9
OTHER ADMINISTRATIVE EXPENSES	**(641,217)**	**(560,523)**	**14**
PROFIT BEFORE INCOME TAX	**467,152**	**352,908**	**32**
Income tax expense	(49,902)	(34,000)	47
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**417,250**	**318,908**	**31**
From this, attributable to:			
Non-controlling interest	341	97	252
Owners of the company	416,909	318,811	31
DISCONTINUED OPERATIONS			
LOSS FROM DISCONTINUED OPERATION	**(4,668)**	**(586)**	**697**
PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION	**412,582**	**318,322**	**30**

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Statement of Financial Position of OTP Bank Plc., according to IFRS standards as adopted by the European Union (consolidated)*:

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Banks	1,784,378	1,547,272	15
Placements with other banks, net of loss allowance for placements	410,079	420,606	(3)
Financial assets at fair value through profit or loss	251,990	181,356	39
Securities at fair value through other comprehensive income	2,426,779	1,883,849	29
Loans at amortized cost	11,846,260	8,032,068	47
Loans mandatorily at fair value through profit or loss	32,802	34,525	(5)
Associates and other investments	20,822	17,591	18
Securities at amortized cost	1,968,072	1,740,520	13
Property and equipment	320,431	253,773	26
Intangible assets and goodwill	242,219	166,711	45
Right-of-use assets	52,950	–	
Investment properties	41,559	38,115	9
Derivative financial assets designated as hedge accounting	7,463	15,201	(51)
Deferred tax assets	26,543	20,769	28
Other assets	227,349	237,932	(4)
Assets classified as held-for-sale	462,071	–	
TOTAL ASSETS	**20,121,767**	**14,590,288**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	813,399	360,475	126
Financial liabilities at fair value through profit or loss	30,862	32,231	(4)
Deposits from customers	15,171,308	11,285,085	34
Liabilities from issued securities	393,167	417,966	(6)
Derivative financial liabilities held for trading	86,743	73,316	18
Derivative financial liabilities designated as hedge accounting	10,709	7,407	45
Deferred tax liabilities	29,195	6,865	325
Leasing liabilities	54,194	50	
Other liabilities	628,468	498,807	26
Subordinated bonds and loans	249,938	81,429	207
Liabilities directly associated with assets classified as held-for-sale	362,496	–	
TOTAL LIABILITIES	**17,830,479**	**12,763,631**	**40**
Share capital	28,000	28,000	0
Retained earnings and reserves	2,319,263	1,864,204	24
Treasury shares	(60,931)	(67,999)	(10)
Non-controlling interest	4,956	2,452	102
TOTAL SHAREHOLDERS' EQUITY	**2,291,288**	**1,826,657**	**25**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**20,121,767**	**14,590,288**	**38**

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